

MEETING OF THE BOARD OF TRUSTEES
November 29, 2017

PRESENT: Trustees Chisholm (phone), DeSimone, Duperval, Katzman, Lutts, Russell, Scott (phone), Segal, Mattera (chair) and President Keenan. Also present and participating at the meeting were Advisory Member Gadenne and Board Secretary Montague and Assistant Secretary Sadowski

ABSENT: Trustee Murphy

The provisions of General Laws, Chapter 30A, having been complied with and a quorum of the Board being present, the Board of Trustees of Salem State University held a meeting in Marsh Hall, Room 210, Central Campus, Loring Avenue, Salem, Massachusetts, on November 29, 2017, with Chair Paul Matter, presiding.

Note - In accordance with the Open Meeting Law all votes are taken by roll call vote when there is remote participation by members.

* * *

I. CALL TO ORDER

Call to Order

Chair Matter called the meeting to order at 5:00 p.m. The Chair announced that all votes taken would be via roll call in accordance with the Open Meeting Law which requires roll call votes when there is remote participation at public meetings.

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II. CONSENT AGENDA: APPROVAL OF MINUTES & COMMITTEE REPORTS

Approval of Minutes

Chair Mattera read the items contained on the Consent Agenda, asked for any objections or modifications to the minutes. Hearing none, and with no further discussion Trustee Segal offered a motion which was seconded by Trustee Lutts, and upon a roll call vote it was unanimously

VOTED: To approve the Consent Agenda (Attachment CA- 17-02)

Voting in the affirmative: Chisholm (phone, DeSimone, Duperval, Katzman, Lutts, Russell, Scott (phone), Segal and Mattera (chair)

Voting against: None

Absent: Murphy

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III. REPORT OF PRESIDENT – President Keenan announced the details of his inauguration event on Friday, January 19, 2018 at 2 pm. The Board and entire university should have received invitation to the event. The event is open to the public. President Keenan provided an update on the Campus Climate Study since the release of the survey results. There were several

Report of President

fora on campus and overall we have received good feedback. Since the study's release, the Vice President of Diversity and Inclusion Lisa McBride has resigned and this might be a good time for us to hit pause and have a campus-wide discussion on the role of the VP of Diversity position and what that role should be. We will have an interim VP of Diversity and Inclusion (or maybe two interim VPs) and mostly likely it will be an internal candidate. The president shared good news that since the Board's last meeting the M.S. in Accounting was formally approved. Finally, President Keenan thanked Beth Bower for her efforts on the Strategic Plan.

* * *

IV. REPORT OF CHAIR – Chair Mattera had no formal remarks. He announced that this was not a regularly scheduled Board meeting but rather that today's meeting date was a placeholder on the Board's calendar in the event that a matter came up. This year the Strategic Plan is before the Board of Higher Education and then the DCAMM project so today's meeting agenda is a brief one. There is one additional matter regarding divestment and that matter would normally fall to the Finance and Facilities Committee but due to our short agenda the Board was pleased to add matter to today's agenda.

*Report of the
Chair*

* * *

V. OLD BUSINESS:

Strategic Plan - Executive Director of Strategic Initiatives Beth Bower and Chief of Staff Nate Bryant recalled that at its last meeting the Board of Trustees approved the Strategic Plan subject to refinement as discussed. Since that meeting, the amendments requested by the Board have been incorporated. Business plan descriptions and baseline metrics have also been included in the final document submitted to the Board of Higher Education (BHE). The plan will be presented at the BHE's Strategic Planning Committee meeting on December 5th and if recommended by that committee it will move forward to the full BHE. There was a discussion of whether metrics were urgently needed however President Keenan reassured the Trustees that the BHE was aware that increased revenue and student enrollment was a priority. Chair Mattera read a prepared motion which was offered by Trustee Russell and seconded by Trustee DeSimone and by a roll call vote it was unanimously

*Old
Business:*

*Strategic
Plan –
Approval*

VOTED: The Board of Trustees hereby approves the Strategic Plan as presented on November 29, 2017 “Attachment A” (OB –17– 1).

Voting in the affirmative: Chisholm (phone), DeSimone, Duperval, Katzman, Lutts, Russell, Scott (phone), Segal and Mattera (chair)
Voting against: None
Absent: Murphy

DCAMM Science Building Proposal – President Keenan then moved on to the next matter of business, the design and construction of the Science Teaching Laboratory Addition which is the university's capital project priority. He explained that the addition supports our strategic priorities and the Commonwealth's “Big Three” Goals focused on student success. The addition is key to increasing enrollment and revenue; consolidating our physical campus through divestment of South Campus (lowering our deferred maintenance backlog and transportations: addressing our region's workforce and economic needs by supporting the expansion of key academic pathways for the North Shore and greater Boston regions; and attracting and retaining demographically diverse students, staff and faculty. Trustee Segal offered a motion which was seconded by Trustee Lutts and by a roll call vote it was unanimously

VOTED: That the Board of Trustees approves Salem State University's submission of a Higher Education Capital Funding Request FY 19 for design and construction of the Science Teaching Laboratory Addition to Meier Hall as prioritized in the 2013 Salem State University Master Vision 2040 and the Payette New Science Laboratory Building Final Report "Attachment A" summarizes the reason for the request and the business plan (OB-17-02)

*DCAMM
Science
Building
Proposal -
Approval*

Voting in the affirmative: Chisholm (phone), DeSimone, Duperval, Katzman, Lutts, Russell, Scott (phone), Segal and Mattera (chair)
Voting against: None
Absent: Murphy

* * *

*New
Business*

VI. NEW BUSINESS:

Multi- School Divest Fund – Trustee Katzman recalled that the Divestment issue was on the agenda at his first board meeting and he thought every meeting after that would just as well attended. He further recalled the Board vote of last year and the proposal that was brought forward from the Multi-School Divest Fund. In the spirit of having a full discussion, the university contacted its financial advisors who couldn't be there tonight. Vice President House added that the advisors thought the amendment could potentially degrade our investment. A Trustee Lutts offered that we've ask Eastern to invest in sustainable companies and they are upgrading the portfolio incrementally. They are scheduled to come to the January Committee meeting. The investment policy was changed by the Board in June which the investors must act in accordance and a checklist developed for review (Attachment "B" Board of Trustees Nov. 29, 2017 Fossil Fuel Divestment Discussion).

*Multi-
School
Divest
Fund*

* *

VIII. OPEN FORUM

Chair Mattera opened the meeting to questions and comments from the floor. Professor Young thanked the Board and President Keenan for their work on sustainability. He informed the Board that last year Divest SSU invested the university donations in a fund called the MultiSchool Divest Fund and that there is now \$50-60K available. Last month Syracuse University divested from fossil fuels and their president said their no evidence that their endowment has suffered. It would seem that SSU couldn't have much invested in fossil fuels. It was reported today that the main killer today is pollution and fossil fuels. Why do we want to continue to get money from the biggest killer one earth? We don't want to heat up the climate another two degrees. Professor Young concluded his statement and finished that if we want to be bold we can tell Eastern Bank that we want to be a leader and divest.

*Open
Forum*

Trustee Katzman offered that he believed that the university was taking a prudent stance from a governance standpoint. Trustee Lutts suggested that the Syracuse actions was news to him and that the committee should do its homework. UMass divested by we're unfamiliar with the terms. There was a brief discussion about action on the matter and Trustee Katzman offered that it should be discussed with the investors in January and all were welcome to attend.

Professor John Hayes addressed the Board and suggested a bold move at Salem State is to move in five years which is the equivalent of twenty quarters. It's time to strategize. The university could

really send a signal and if the Board can't make a decision tonight then it could make a recommendation for January. Professor Hayes shared that Genus Capital Management Inc. released a report on the four-year performance of its fossil-free Canadian and global equity fund. The results show from the end showed that the fund saw returns of 16 percent annual. That compares to the 13.3 percent annual return reported by its benchmark over the period. The perception has been that including fossil fuel stocks in a portfolio was necessary to generate returns but we now have data to demonstrate that isn't the case (OF-17-1). The Board thanked Professor Hayes for his comments.

On a separate matter, Trustee Lutts shared that he had a recent visit from Joel Schurette, a student from the Bertolon School who is starting a business fund. The educational benefit to students from a program like this is tremendous. Joel's is the process of pulling the program together now and it's a great idea. It will educate students, connect with alums and engage faculty.

* * *

IX. ADJOURNMENT

There being no further business to come before the Board and on a motion duly made by Trustee Russell and seconded by Trustee Lutts, and upon a roll call vote it was unanimously

VOTED: To adjourn the meeting at 6:55 p.m.

Voting in the affirmative: Chisholm (phone), DeSimone, Duperval, Katzman, Lutts, Russell, Scott (phone), Segal and Mattera (chair)
Voting against: None
Absent: Murphy

Respectfully submitted,



John Keenan
President



Lynne Montague
Secretary to the Board of Trustees

November 29, 2017

*Marsh Hall, Room 210, Central Campus, Loring Avenue
Salem State University
Salem, Massachusetts*

CA – 17-02

CONSENT AGENDA ITEMS:

Minutes:

Board of Trustees: October 11, 2017

Risk Management & Audit: October 11, 2017

REQUEST FOR TRUSTEE ACTION

Date: November 29, 2017
To: Board of Trustees
From: President Keenan
Subject: Strategic Plan
Requested Action: Approval

Background

On November 1, 2017, the Board of Trustees approved the Strategic Plan subject to refinement as discussed at the meeting on November 1, 2017. Since that meeting, the amendments requested by the Board have been incorporated. Business plan descriptions and baseline metrics have also been included in the final document submitted to the Board of Higher Education.

Recommended motion

The Board of Trustees hereby approves the Strategic Plan as presented on November 29, 2017 (Attachment A).

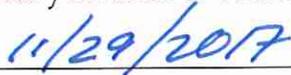
Trustee Action: Approved
Trustee Approval Date: November 29, 2017
Effective Date: November 29, 2017

Signed: _____



Title: Secretary of Board of Trustees

Date: _____



APPROVED

NOV 29 2017

Board of Trustees
Salem State University

 REQUEST FOR TRUSTEE ACTION

Date: November 29, 2017
To: Board of Trustees
From: President Keenan
Subject: Funding Proposal for the Science Teaching Laboratory Addition
Requested Action: Approval

Background

The design and construction of the Science Teaching Laboratory Addition is the university's capital project priority. This addition supports our strategic priorities and the Commonwealth's "Big Three" goals focused on student success. As outlined in our Master Vision 2040, the addition will not only provide upper level, state-of-the-art laboratories, but also free up space to improve Meier Hall, and align our programmatic strengths. Specifically, the addition is key to the university:

- Increasing enrollment and revenue;
- Consolidating our physical campus through divestment of South Campus, thus lowering our deferred maintenance backlog and transportation costs;
- Addressing our region's workforce and economic needs by supporting the expansion of key academic pathways for the North Shore and greater Boston regions (Information Technology and Healthcare) and (allied) disciplines (Business, Education) and condensing under-enrolled programs;
- Attracting and retaining demographically diverse students, staff and faculty.

The Division of Capital Asset Management and Maintenance (DCAMM) has issued a request for proposals for FY19 Higher Education. As we reported to you in our September and October meetings, the university submitted a "Peer Review" DRAFT proposal for which we received comments on October 26, 2017 (Attachments A & B). DCAMM requests a board statement acknowledging it has been briefed on this capital project request.

Recommended motion

That the Board of Trustees approves Salem State University's submission of a Higher Education Capital Funding Request FY19 for design and construction of the Science Teaching Laboratory Addition to Meier Hall as prioritized in the 2013 Salem State University Master Vision 2040 and the Payette New Science Laboratory Building Final Report. Attachment A summarizes the reason for the request and the business plan.

Trustee Action: *approved*
Trustee Approval Date: *11/29/17*
Effective Date: *11/29/17*



Signed: *[Signature]*
Title: Secretary of Board of Trustees
Date: *11/29/2017*

STLA Alignment with Campus Master Vision

Completed in July 2013, the Salem State University (SSU) Campus Master Vision establishes a plan for the institution's presence in the greater North Shore region – a plan rooted in the academic mission of the University and one that advances its role in the community and economic development. The Campus Master Vision builds on and extends the ideas originally communicated in the 2007 Campus Master Plan. The Science Teaching Laboratory Addition (STLA) has been a consistently documented need in each of the planning studies, and was the subject of a follow-up, more detailed feasibility study completed in 2014.

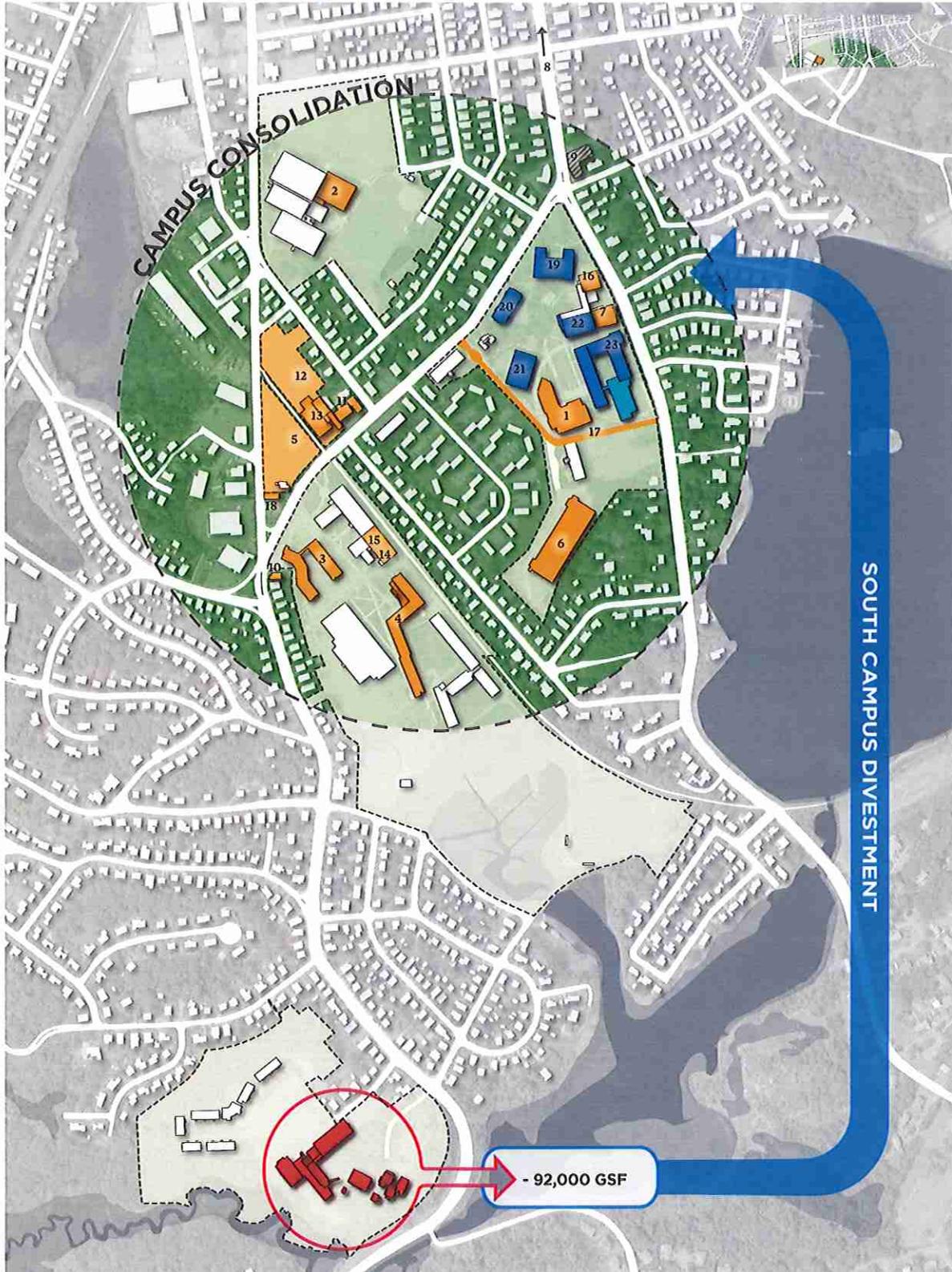
Four key principles govern the 2013 plan: flexibility, connectivity, identity, and community. These principles reflect the University's aspirations to establish a compact and efficient campus core that maximizes programmatic synergies and consolidates Salem State's footprint within its Central and North Campuses. In so doing, SSU divests of much of its South Campus facilities and, accordingly, reduces its overall deferred maintenance liability.

Since completion of the 2007 and 2013 planning efforts, SSU has completed numerous projects to improve both the academic and student experience while, at the same time, addressing deferred maintenance issues within its ageing buildings and infrastructure. Some of these projects were completed with assistance from DCAMM, including the Berry Library and Learning Commons and a portion (roughly 22%) of the Mainstage Theater Modernization and Upgrade. Other projects were completed in partnership with MSCBA, including the Gassett Fitness Center, Viking and Marsh Residence Halls, the North Campus Parking Garage, the reconstruction of College Drive, the Navigation Center, and the demolition and construction of a new police center. Acting alone, Salem State University has funded various leases and fit-outs to accommodate administrative needs (preserving core campus buildings for academic functions), as well as the acquisition of the Weir/Stanley property to enable campus consolidation, acquisition of the Salem Diner as a campus food service venue, and a significant portion of the Mainstage Theater Modernization and Upgrade (roughly 78%, or \$18 million out of the total \$23 million). All of these projects demonstrate a strong commitment to implementing the Campus Master Vision, and exhibit the University's willingness to contribute its own funds toward making the Vision a reality.

STLA remains the highest priority project for the University, and closely aligns with and is informed by the University's academic plan. The current science facility, Meier Hall, limits the ability of the University to meet the demand of STEM courses both for science majors and for health disciplines and general education requirements. The 2013 Master Vision plan documents the hyper-utilization of Meier Hall labs, both from a seat fill rate (often 100%) and room use rate (75-90%), well in excess of the state's space standards.

The STLA project not only is a high priority in terms of academic need, but also is the highest priority deferred maintenance project for SSU. Existing Meier Hall has significant deferred maintenance and life safety issues. Various studies have concluded that Meier Hall is not suitable for wet laboratory uses due to low ceiling heights and mechanical system limitations – the key factors that led to the conception of STLA. Meier Hall, however, does offer important programmatic space (dry lab, classroom, and office) to allow the University to subsequently address deferred maintenance issues in many other of its buildings, including Sullivan Hall, Horace Mann, Ellison Campus Center, the Dining Commons, and divestment of 92,000 gross square feet of South Campus facilities, much of which is in poor condition. In this way, STLA becomes the critical domino for reducing the University's deferred maintenance liability while also realizing its academic mission.

Salem State University



Key

RECENT PROJECTS

1. Berry Library and Learning Commons- DCAMM
2. Gassett Fitness Center- MSCBA
3. Viking Residence Hall- MSCBA
4. Marsh Residence Hall- MSCBA
5. Demolition of Weir Property Building - MSCBA

6. North Campus Parking Garage- MSCBA
7. Main-stage Theater Modernization and Upgrade DCAMM, SSU
8. 287 Lafayette - SSU
9. 331 Lafayette - SSU
10. 75 Loring - SSU
11. 66-68 Loring - SSU

12. Weir / Stanley property Stanley Building - ARRA
13. Demolition and construction of new police center - MSCBA
14. Construction of Navigation center - MSCBA
15. HR trailers and renovation of Admin building - SSU
16. Reconstruction of College Drive - MSCBA
17. Salem Diner - SSU

DEFERRED MAINTENANCE ADDRESSED IN NCCP

19. Sullivan Building
20. Horace Mann Lab School
21. Ellison Campus Center
22. Dining Commons
23. Meier Hall

COLOR KEY

- Recent projects, leases, or acquired property
- New Construction to address deferred maintenance in existing buildings
- Deferred maintenance to be addressed through renovations and South Campus program consolidation
- South Campus divestment



Board of Trustees

November 29, 2017

Fossil Fuel Divestment Discussion

TABLE OF CONTENTS

Page 1: Excerpts BOT Meeting book – October 13, 2016 – this was the meeting at which the Sustainability Committee made its report and recommendations and the Board voted to change the investment policy (among other actions)

Page 11: Multi-School FF Divestment Fund FAQs – information about the fund to which (apparently) \$57,000 has been donated by SSU-friendly donors to encourage us to divest

Page 15: Impact Assets – Donor Advised Fund – information about the organization that manages the Multi-School Fossil Fuel Divestment Fund

Page 17: Eastern comments 2011 11 26 – Michael's e-mail that expresses his viewpoint on the proposal to add a 5-year deadline

Page 18: SSU Sustainability Update 11.21.17 – a status report on recent actions taken by the university in the sustainability arena

Page 20: SSU schedule of investments at 6_30_2017 – a list of holdings.

TO: Robert Lutts, Chair, SSU Sustainability Special Committee
 Patricia Maguire Meservey, President

FROM: John Keenan, General Counsel and Vice President for Administration
 Karen House, Vice President for Finance and Business
 Ben Szalewicz, Assistant Vice President, Capital Planning & Facilities

SUBJECT: Final Report & Recommendations

DATE: 28 September 2016

On December 2, 2015, the Board of Trustees (BOT) in response to a request by representatives of SSU faculty and students that the university divest from fossil fuels, created this special committee to review the university's progress in advancing sustainability and address the complex questions arising from the proposal to divest in context of best practices in higher education.

Committee members.

Trustee Rob Lutts (Chair), Trustee Alyce Davis, Trustee Sidi Diarra, President Patricia Meservey, Professor and Chair of All University Committee Steve Young, VP for Administration John Keenan, AVP Capital Planning & Facilities Ben Szalewicz, VP for Finance & Business Karen House and Secretary to the BOT Lynne Montague.

Committee charged with the following tasks.

1. Review university progress in achieving progress towards goals and actions of the Climate Action Plan of 2010;
2. Analyze exemplars of higher education best practices;
3. Recommend policy direction for Salem State, with consideration of cost-effectiveness and multi-year strategies with regards to:
 - a. Greenhouse gas emissions and reduction targets;
 - b. Transportation;
 - c. LEED building;
 - d. Energy efficiency and renewal;
 - e. Waste disposal and purchasing;
 - f. Finance and socially responsible investing;
 - g. Education, research and community outreach.

In addition to reviewing sustainability efforts on our campus and at a number of peer institutions, a top priority of this committee was to hear from members of the campus community regarding their sustainability priorities. The committee took part in several forums with sustainability advocates, which included a presentation by Professor Young on climate change and a panel discussion on Earth Day, among others. (See attached Exhibit A – meeting dates are highlighted).

Findings.

Climate Action Commitment.

While the university has made considerable progress on the sustainability front, we realized that we have not done a very good job communicating our success. As a signatory of the American College & University Presidents' Climate Action Commitment (ACUPCC), we committed to a climate neutrality target date of 2050. Ben Szalewicz, AVP Capital Planning and Facilities, will be working with the University Sustainability Committee (USC) to file our progress evaluation which is due January 15, 2017. The organization is now known as Second Nature.

Additionally, we are planning on creating a position at the university that will have responsibility for sustainability. Among other duties, this person will be responsible for ensuring that our sustainability goals, such as our climate neutrality target date of 2050, are consistently moving forward. This individual will also serve as a point person for members of the larger campus community who have recommendations regarding sustainability efforts, and will take a leading role in helping the university evaluate the feasibility of such efforts and move agreed-upon initiatives forward.

Significant energy reductions & LEED construction practices.

We have partnered with the Massachusetts Division of Capital Asset Management and Maintenance (DCAMM) through its Commonwealth Energy Investment Program (CEIP). We've completed two phases resulting in significant reductions in GHG and energy usage. Phase III, presently underway in the O'Keefe Center, will provide lighting upgrades, HVAC and energy system improvements and a soon to be new ice rink. As a result of this work, we have achieved the following total energy savings: Electricity 2.4 million kWh; Gas 93,581 therms; Fuel Oil 1,473 gals; and Carbon Dioxide 1,526 metric tons. Most remarkably, while our total square footage continues to expand, our carbon footprint and energy usage has declined! For our Energy Use Intensity, we've achieved a 19% reduction and in Greenhouse Gas Emissions a 29% reduction since 2004. (See Energy Use Intensity and GHG Emissions in attached Exhibit B). Much success can also be attributed to our LEED efforts in recent construction. Marsh and Viking are LEED Gold. Atlantic, Berry and

Gassett are LEED Silver. The garage is on track to achieve Green Garage Certification and The Sophia Gordon Center for Performing Arts is also within reach of LEED Gold.

Comparison to peers and best practices.

We analyzed aspirant and peer institution efforts in several areas including: GHG emissions and targets; transportation efforts; LEED building efforts; energy efficiency and renewal and waste disposal. (A comprehensive summary of our findings has been uploaded to Board Effects.) By comparison, our efforts to date in efficiency (CEIP), LEED construction and recycling, match up well with both aspirant and peer institutions. Most have similarly pursued energy efficiency, extensive lighting retrofits and heating/cooling measures. Many exemplars have adopted interim milestones for neutrality by 2050. Like many, we have begun our efforts by focusing on lighting, heating and some renewables, and future gains are likely to be more resource intensive.

Progress on transportation emissions.

Increased residential capacity (Atlantic, Marsh & Viking) has significantly reduced the number of commuting students. Our goal of achieving 50% residential will further reduce daily student commutes and vehicle emissions. Similarly our partnership with the TMA (Transit Management Authority) to encourage other modes of transportation (public, carpooling, cycling and walking) moves us in the right direction. We recently installed ten new bike racks that further encourage more faculty, students and staff to pedal to campus. Construction of our new parking garage for commuters has reduced emissions insofar as students no longer need to circle the campus looking for a parking spot. We've added three electric charging stations (in addition to four inside the garage) and reduced bus routes. We're collaborating with the City of Salem and the Salem Partnership to advocate for a new commuter rail train stop on campus – across from O'Keefe.

Waste disposal and recycling.

We've recently increased the number of receptacles on campus which should increase recycling. We are also considering single-stream recycling on campus to increase recycling rates. Relating to waste reduction, during mainstage construction, we have diverted 96% of waste from landfills and 33% of materials are recycled content.

Other initiatives – renewables.

In an effort to reduce and replace carbon emissions, we continue to explore additional renewable energy options on campus. We're presently reviewing a proposal for additional solar on the O'Keefe Center, the Building One on Central Campus and carports on South Campus.

Socially Responsible Investing.

We reviewed investment policies and practices and the question of divestment of fossil fuel for three sets of institutions: Peer Institutions, Aspirant Institutions, and selected others (New England based, known for attention to environmental issues, specifically University of New Hampshire, University of Vermont, University of Massachusetts and Boston University). Of the 20 colleges or universities reviewed, only two had divested of fossil fuel companies as of March 2016: Eastern Washington University and University of Massachusetts Foundation (at that time, coal divestment only). Eastern Washington University announced on June 30, 2015 a full divestment of fossil fuel investments and a direction to engage in socially responsible investment strategies going forward. On May 25, 2016, the University of Massachusetts Foundation announced it would divest of fossil fuels, the first major public university to do so. On June 15, 2016, the University of Massachusetts Board of Trustees endorsed that decision.

Additionally, of the investment policies we obtained from the institutions studied, only the University of Vermont's (UVM) and the University of Massachusetts Foundation's investment policy statements address social investment criteria. UVM's investment statement clarifies the university has no "direct investments in coal companies and...no current intentions to make direct investments in coal companies." Further, UVM acknowledges the existence of an alternative endowment fund for future donations for "those who wish to have their gifts invested in non-fossil fuel sources." University of Massachusetts Foundation's investment policy incorporates Environmental, Social and Governance (ESG) criteria and includes a Social Choice Endowment option for donors.

In doing this research we confirmed that other well respected universities struggle to make the best choice on the complex question of divestment; some use advisory committees to allow advocates to put specific issues including but not limited to fossil fuel divestment forward for vetting and consideration; standard investment principles, fiduciary responsibility, and compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is germane, and almost all the institutions opted to take actions to improve their impact on the planet vis a vis climate change and sustainability other than through full divestment of fossil fuel companies. (Please see attached Exhibit C for a list of educational institutions which have divested).

Recommendations.

At the conclusion of its work the Committee proffered several recommendations for the Board's consideration. (See attached Exhibit D).

EXHIBIT A

Timeline of Significant Events Associated with Consideration of Divestment from Fossil Fuels (Salem State University only – does not include Salem State University Foundation)

Date	Activity
Nov. 3, 2014	During the President's campus open meeting, a question and concern about the university's fossil fuel investments was raised; referred to Vice President House for follow-up
Nov 2014 – March 2015	Occasional meetings and information exchanges between Professor Noel Healy (on behalf of interested students and faculty) and VP House
April 13, 2015	Dr. Healy and VP House co-organize a panel presentation during Earth Days Week titled Should Salem State Divest from Fossil Fuels?
April 24, 2015	Dr. Healy officially submits the faculty petition for divestment by e-mail to President Meservey and VP House
Sept. 2, 2015	Professor Healy submits the student divestment petition to VP House upon request
Sept. 3, 2015	Packet distributed for the upcoming meeting of the Board of Trustees' Finance and Facilities Committee includes a variety of materials related to divestment, including copies of the student and faculty petitions
Sept. 16, 2015	BOT Finance and Facilities Committee meets and discusses investment philosophy regarding fossil fuel <ul style="list-style-type: none"> • Dr. Noel Healy and SSU 2015 graduate Jessica Debski present their case for divestment from fossil fuels. • Michael Tyler, chief investment officer and John Doherty, relationship manager for Eastern Bank Wealth Management provide the perspective of the university's advisers regarding fossil fuel divestment.
Nov. 4, 2015	Packet distributed for the upcoming meeting of the Board of Trustees' Finance and Facilities Committee includes additional materials related to divestment
Nov. 18, 2015	BOT Finance and Facilities Committee meets and continues to discuss fossil fuel divestment <ul style="list-style-type: none"> • Dr. Noel Healy and Jessica Debski, alumnus of Salem State University reiterate the case for fossil fuel divestment • Committee recommends that the board chair form an ad hoc committee to consider implications and ramifications of fossil fuel divestment as well as other potential actions the university could take within the broader realm of supporting sustainability and the environment

*Meeting/forum dates are highlighted.

Date	Activity
Dec. 2, 2015	Board of Trustees meets <ul style="list-style-type: none"> <li data-bbox="365 197 1159 380">• BOT Chair Mattera establishes a university-wide special committee entitled SSU Sustainability Special Committee to review the university's progress in advancing sustainability and to offer recommendations to the Board of Trustees for future action. Included in this review will be an analysis of the complex questions arising from the proposal to divest in the context of best practices in higher education.
Jan. 21, 2016	SSU Sustainability Special Committee meets
March 22, 2016	SSU Sustainability Special Committee meets
April 13, 2016	SSU Sustainability Special Committee hosts an Earth Day program open to all to share information and solicit input. Program titled Sustainability at SSU: Now and in the Future
May 5, 2016	SSU Sustainability Special Committee meets. Recommendations are finalized.
June 8, 2016	Board of Trustees meets and discusses the recommendations made by the SSU Sustainability Special Committee. BOT requests additional information from the investment advisors regarding the divestment recommendation. This additional information is to be discussed by the BOT Finance and Facilities Committee in its first meeting of academic year 2016-2017.
July – Sept. 2016	University administration gathers the requested information from the investment advisors, in preparation for the Sept. 28 meeting of the BOT Finance and Facilities Committee.

EXHIBIT B

Energy Use Intensity and GHG Emissions

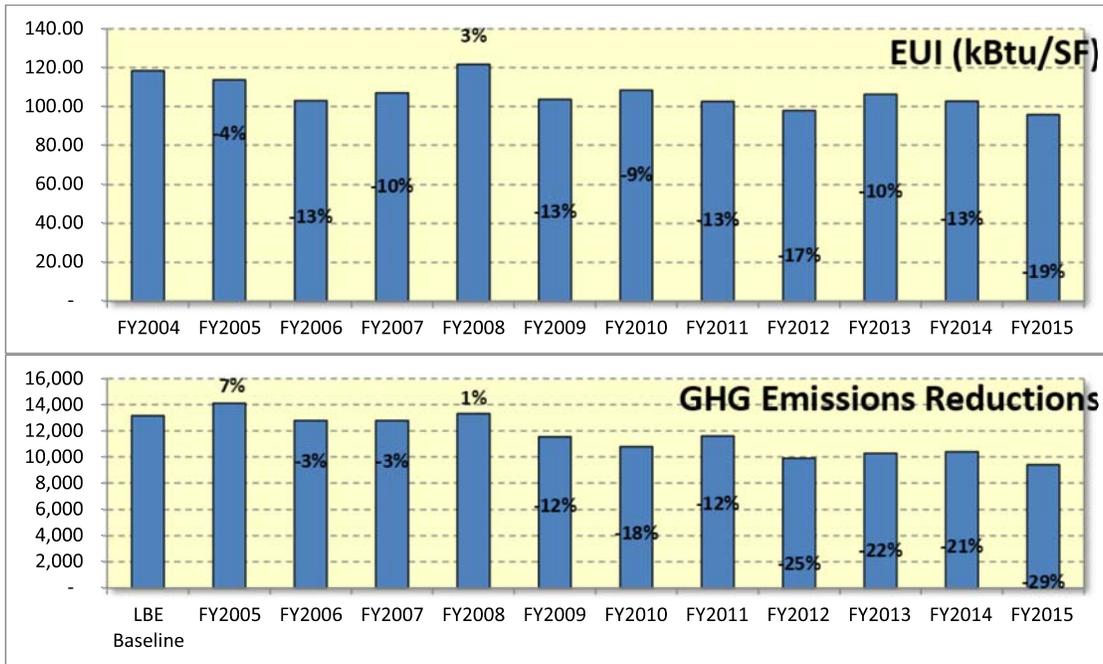


EXHIBIT C

Educational Institutions World Wide Who Have Divested, as of 9/26/16 per GoFossilFree.org

Summary - Count of Educational Institutions, By Divestment Type				Count
Coal and Tar Sands only				13
Coal only				6
Fossil Free				2
Full				43
Partial				8
				72
USA-based educational institutions which have divested				32
Name of Organisation	Type	Country	Divestment Type	More Info
Australian Academy of Science	Educational Institution	Australia	Full	→
Australian National University	Educational Institution	Australia	Partial	→
Birmingham City University	Educational Institution	UK	Partial	→
Brevard College	Educational Institution	USA	Full	→
California Institute of the Arts	Educational Institution	USA	Full	→
Chalmers University of Technology	Educational Institution	Sweden	Full	→
Chico State University	Educational Institution	USA	Full	→
College of the Atlantic	Educational Institution	USA	Full	→
College of the Marshall Islands	Educational Institution	Republic of the Marshall Islands	Full	→
Cranfield University	Educational Institution	UK	Coal and Tar Sands only	→
De Montfort University	Educational Institution	UK	Coal and Tar Sands only	→
ESF College Foundation, Inc.	Educational Institution	USA	Full	→
Foothill-De Anza Community College Foundation	Educational Institution	USA	Full	
George School	Educational Institution	USA	Coal only	→
Georgetown University	Educational Institution	USA	Partial	→
Goddard College	Educational Institution	USA	Fossil Free	→
Green Mountain College	Educational Institution	USA	Full	
Hampshire College	Educational Institution	USA	Full	
Heriot-Watt University	Educational Institution	UK	Coal and Tar Sands only	→
Humboldt State University	Educational Institution	USA	Partial	→
La Trobe University	Educational Institution	Australia	Full	→
London School of Economics	Educational Institution	UK	Coal and Tar Sands only	→
London School of Hygiene & Tropical Medicine	Educational Institution	UK	Coal only	→
Lund University	Educational Institution	Sweden	Partial	→
Monash University	Educational Institution	Australia	Coal only	→
Naropa University	Educational Institution	USA	Full	
Newcastle University	Educational Institution	UK	Full	→
Oxford Brookes University	Educational Institution	UK	Full	→
Oxford University	Educational Institution	UK	Coal and Tar Sands only	→
Peralta Community College District	Educational Institution	USA	Full	
Pitzer College	Educational Institution	USA	Full	
Prescott College	Educational Institution	USA	Partial	
Queen Margaret University	Educational Institution	UK	Full	→
Queen Mary University London	Educational Institution	UK	Full	
Queensland University of Technology	Educational Institution	Australia	Full	→
Rhode Island School of Design	Educational Institution	USA	Full	→
SOAS, University of London	Educational Institution	UK	Full	→
San Francisco State University Foundation	Educational Institution	USA	Coal and Tar Sands only	
Sheffield Hallam University	Educational Institution	UK	Fossil Free	→
Stanford University	Educational Institution	USA	Coal only	
Sterling College	Educational Institution	USA	Full	

Educational Institutions World Wide Who Have Divested, as of 9/26/16 per GoFossilFree.org

Name of Organisation	Type	Country	Divestment Type	More Info
Stockholm University	Educational Institution	Sweden	Full	→
Students' Society of McGill University	Educational Institution	Canada	Full	
Syracuse University	Educational Institution	USA	Full	→
The New School	Educational Institution	USA	Full	→
The New Zealand Tertiary Education Union	Educational Institution	New Zealand	Full	→
Unity College	Educational Institution	USA	Full	
University of Bedfordshire	Educational Institution	UK	Full	→
University of California	Educational Institution	USA	Coal and Tar Sands only	→
University of Cambridge	Educational Institution	UK	Coal and Tar Sands only	→
University of Dayton	Educational Institution	USA	Full	
University of Edinburgh	Educational Institution	UK	Coal and Tar Sands only	→
University of Glasgow	Educational Institution	UK	Full	→
University of Hawaii	Educational Institution	USA	Full	→
University of Hertfordshire	Educational Institution	UK	Coal and Tar Sands only	→
University of Maine System	Educational Institution	USA	Coal only	→
University of Maryland	Educational Institution	USA	Full	→
University of Massachusetts Foundation	Educational Institution	USA	Full	→
University of Otago Foundation Trust	Educational Institution	New Zealand	Full	→
University of Portsmouth	Educational Institution	UK	Coal and Tar Sands only	→
University of Sheffield	Educational Institution	UK	Full	→
University of Southampton	Educational Institution	UK	Full	→
University of Surrey	Educational Institution	UK	Full	→
University of Sydney	Educational Institution	Australia	Partial	
University of Warwick	Educational Institution	UK	Full	→
University of Washington	Educational Institution	USA	Coal only	→
University of Westminster	Educational Institution	UK	Coal and Tar Sands only	→
University of the Arts London	Educational Institution	UK	Full	
Victoria University of Wellington	Educational Institution	New Zealand	Full	→
Warren Wilson College	Educational Institution	USA	Full	→
Wolfson College	Educational Institution	UK	Coal and Tar Sands only	→
Yale University	Educational Institution	USA	Partial	→
source of data:		http://gofossilfree.org/commitments/	on 9/26/16	

EXHIBIT D

Sustainability Committee Recommendations – Final

- 1) Greenhouse gas emissions and reduction targets: Salem State University has made a commitment through the Presidents' Climate Commitment of Second Nature to be carbon neutral by 2050 – we are reaffirming this commitment. In addition, we need to set interim goals and these goals will be determined as we prepare the report due to Nature in January of 2017. The expectation is that we will have goals set to reduce our carbon footprint by 50% and 75% at dates certain and TBD.
- 2) Transportation: A significant portion of the greenhouse gas emissions are tied to transportation and the goals above will be directly related to our ability to reduce the use of private vehicles by our community. To support this effort, Salem State will focus on increased use of alternative transportation such as public transportation (including advocacy for a South Salem train stop) and creating a bike friendly environment with bike racks and lanes. Further increasing on-campus housing will reduce the number of students commuting to campus and our goal is to increase on-campus housing to 50% of full-time undergraduates within 8 – 10 years.
- 3) LEED building: We will strive to achieve LEED Gold for all new construction on campus and LEED Silver where possible with renovations. Further we will dedicate a portion of capital improvement funds for energy reduction and/or other sustainable goals each year and add a criterion to our rating system for project prioritization to include benefits to sustainability.
- 4) Energy efficiency and renewal: Incorporated in other categories.
- 5) Waste disposal and purchasing: We will continue to expand our recycling efforts through actions such as single stream recycling. Data will be collected to baseline our current efforts and to set goals by January 2017. For Purchasing, we did not address this element and will incorporate it into our work due to Second Nature in January 2017.
- 6) Finance and Socially Responsible Investing: The recommendation to the Trustees is to:
 - a) Instruct our financial advisors not to invest any direct holdings in the coal industry (we do not currently have such investments). This would be in effect immediately, and would result in the permanent elimination of 100 of the “Carbon 200” companies from our investment portfolio.
 - b) Instruct our financial advisors to consider further divestment from direct holdings in the balance of the “Carbon 200” (Fossil Fuel Free) companies to the extent the advisors believe it is financially prudent with the goal of achieving full divestment in five years.
 - c) Instruct our financial advisors to invest in alternative energy companies/efforts to the extent the advisors believe it is financially prudent.
- 7) Education, research, and community outreach: We will support the development of certificate and degree programs that prepare our graduates to work in the fields of sustainability. The plan for such programming will be incorporated into our university strategic plan which will be developed during AY16-17. We will also establish programs on campus to educate our community (campus and beyond) regarding the importance of sustainability and the social and economic consequences of climate change. This work will be incorporated into our Talent Development Programming and special programs offered by our academic and student life work.
- 8) We will create metrics for and assess the climate resiliency of our campus.

The Multi-School Fossil Free Divestment Fund

don't let your money inflate the climate crisis

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FAQS

Divest Fund FAQs

- [Why make a donation?](#)
- [Can't I just pledge to not donate to my school until they divest?](#)
- [Will a small \\$10 donation even matter?](#)
- [What if my school isn't listed on your site?](#)
- [Who runs the fund?](#)
- [Do the Organizers of divestfund.org profit from my donation?](#)
- [How is my donation invested?](#)
- [What happens if the school I donate to doesn't divest?](#)
- [Why will my donation go to other schools if my designated school doesn't divest?](#)
- [What if I have more questions?](#)

Campus Divestment FAQs

- [What is the Problem?](#)
- [Why is Divestment Part of the Solution?](#)
- [Why Should My School Divest?](#)
- [If My School Divests, Won't it Lose Money?](#)

Divest Fund FAQs

Why donate?

A donation is one way to add your voice to the divestment movement! Donating to Divest Fund is especially powerful because schools spend a great deal of effort trying to recruit alumni donations. Donations show that alumni care about their Alma mater but want them to do the right thing: stop funding the problem and divest from fossil fuels. To give your donation more teeth, let the school's president, alumni office, and other responsible parties know. There is a template letter for you to send to your school's president [here](#).

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Can't I just pledge to not donate to my school until they divest?

Pledging to not donate is likely not as effective as giving a donation to Divest Fund. Many universities may assume, correctly or incorrectly, that anyone pledging not to donate would not have donated anyway. It's very easy for someone to sign a petition or pledge, but when you put action behind your words with a donation, your voice is amplified and harder to dismiss.

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Will a small \$10 donation even matter?

Every donor counts! A large number of donors shows the breadth of support for divestment. Also, the percent of alumni who donate to their alma mater account for 5% of [U.S. World News college rankings](#). We also encourage you to donate your time and your voice to the effort by letting your friends and family know about your donation or help build the movement with others from your school!

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What if my school isn't listed on your site?

If you're a believer in the cause of campus divestment or are a fan of one of the schools listed, you're welcome to designate them with your

SCHOOLS

[Allegheny College](#)
[Amherst College](#)
[Boston College](#)
[Brandeis University](#)
[Dartmouth College](#)
[Fort Lewis College](#)
[Georgetown University](#)
[James Madison University](#)
[Massachusetts Institute of Technology](#)
[Northeastern University](#)
[Reed College](#)
[Salem State University](#)
[St. Paul's School](#)
[Stony Brook University](#)
[Stanford University](#)
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[Trinity College](#)
[Tufts University](#)
[University of Illinois Urbana-Champaign](#)
[University of Mary Washington](#)
[University of Notre Dame](#)
[University of Oregon](#)
[University of Pennsylvania](#)
[University of Rhode Island](#)
[University of Wisconsin - Madison](#)
[Wellesley College](#)
[Western Washington University](#)
[Williams College](#)
[Worcester Polytechnic Institute](#)
[Worcester State University](#)

OTHER FUNDS

[Harvard University](#)
[Responsible Endowments Coalition Funds](#)
[Carleton College](#)
[Colorado College](#)
[Columbia University](#)
[Pacific Lutheran University](#)
[Pitzer College](#)
[Swarthmore College](#)
[University of California](#)

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donation. If you want to encourage your school to divest by adding them to the Divest Fund family, let us know [here](#).

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Who runs the fund?

The money is donated to a donor-advised fund (DAF) through the firm Impact Assets. There are students, alumni, faculty, and parents from each of the schools that are involved in an Advisory Council (AC) which organizes the fund and directs Impact Assets. Impact Assets is a 501(c)(3) so donations are tax-deductible; they charge a nominal management fee. Learn more about DAFs [here](#).

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Do the Organizers of divestfund.org profit from my donation?

No. All of the participants are volunteers, and all fund returns are reinvested and used to cover management fees. The money released after divestment goes to the school, not to the campaign organizers.

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How is my donation invested?

Donations are not invested in the top 200 fossil fuel companies. We also screen out other harmful industries and positively screen towards renewables. More details about how the money is invested can be found [here](#).

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What happens if the school I donate to doesn't divest?

The fund gives schools until the end of 2017 to commit to divestment from fossil fuels. In the event that no satisfactory commitment is made at that time by a school in the fund, the money in the fund designated for that school will be equally distributed to the other schools in the fund that have committed to divestment.

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Why will my donation go to other schools if my designated school doesn't divest?

This end result was chosen for multiple reasons. It rewards schools that make the right decision to stop funding destruction of our planet and future. It prevents schools from just waiting out the "thorn in their side" of potential donations to the school. It further incentivizes decision-makers at schools to divest in order to prevent rival institutions from receiving their funds, and it incentivizes divestment supporters to be more engaged in organizing and fighting for divestment at their designated school so that the school does the right thing and benefits from their donation. Finally, these funding terms are unique, creative, and attention grabbing, designed to be a compelling media narrative.

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Why does the fund end in 2017?

The end date of the fund is based on the International Energy Agency's World Outlook Report stating that no new fossil fuel infrastructure can be built starting in 2017.

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What if I have more questions?

Here are some other FAQs to read:

- 350.org : <http://gofossilfree.org/faq/>
- Fossil Free UC FAQ
- UCSB Academic Senate FAQ
- UCSB Student Senate FAQ

We love talking with other organizers; reach us at divestfundac@googlegroups.com

Campus Divestment FAQs

What is the Problem?

Tweets by @DivestFund



MultiSchool Divest
@DivestFund

Breaking: U of Michigan Ann Arbor passes divestment resolution!
[#UMDivest michigandaily.com/section/studen...](#)

#UMDivest resolution passes...
#UMDivest's resolution — for t...
michigandaily.com

Nov 15, 2017

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Climate change, which we now know is fueled by extracting and burning fossil fuel, is already devastating communities, causing unprecedented storms and droughts, flooding low-lying areas. Worse still, climate change poses an unprecedented threat to our future. Our global society, especially the developed world, has failed thus far to take meaningful action to address this challenge. Continued inaction will have egregious consequences for all of humanity, particularly those in developing countries and marginalized communities. The scientific consensus is not only that “warming of the climate system is unequivocal,” but also that the vast majority of proven fossil fuel reserves must stay in the ground in order to avoid catastrophic climate change.

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Why is Divestment Part of the Solution?

Students, alumni, and parents around the world recognize that it is unacceptable to profit from the destruction of our planet. Divestment has already had a powerful social and political impact, and we've just begun. Fossil fuel companies' continued exploration and extraction is unethical and pushes us all toward global catastrophe. The stranglehold these companies maintain over our government and our society makes it difficult to begin the just transition away from fossil fuels. However, we can stop investing in them. Investments, by definition, are made with an eye to the future, and we should not be investing in an industry whose actions will compromise the future of all of Earth's inhabitants.

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Why Should My School Divest?

Many universities hold large endowments with significant investments in fossil fuel companies and/or funds that hold fossil fuel assets. Universities consume fossil fuels in most aspects of campus operations. But universities also support most of the research that has identified the existence, nature, and consequences of climate change, and the principal purpose of the university is to educate, particularly the young adults who will live and work in the climate of the future. ([Source](#))

Many schools have high aspirations captured in their charters. For example, Stanford University was founded to “promote the public welfare by exercising an influence on behalf of humanity and civilization.” ([Source](#)) Many schools promote environmental sustainability as one of their core values. Hundreds of our engineers, scientists, policy experts, and economists associated with colleges are working to better understand and combat climate change. At the same time, their endowments are invested in the very fuels causing this crisis. The schools are actively supporting companies that use their enormous wealth and power to perpetuate climate change denial and inaction. With the vast financial and social capital that schools hold, these campuses have a unique opportunity to drive real action on climate change by divesting from the fossil fuel industry. Doing so will not only be a sound financial decision for investment portfolios, it will promote the wellbeing of current and future graduating classes, who deserve a future that is not defined by climate chaos.

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If My School Divests, Won't it Lose Money?

Fossil fuel divestment is consistent with sound financial management. Holding assets in fossil fuel companies, and in companies that are fossil fuel-intensive, poses a significant array of risks for universities that appear on multiple, simultaneous fronts. As governments and industries worldwide implement carbon emission reduction plans, fossil fuel companies will eventually experience a dramatic decline in demand for their products, producing so-called “stranded carbon.” Price volatility of fossil fuel assets is the norm, and it will be exacerbated by rising concerns about extractive practices and the forced internalization of external costs, shareholder advocacy, the elimination of generous subsidies, and intense competition from energy efficiency and fast-developing, low-carbon sources of energy. A number of prudent financial institutions, including [The Bank of England](#), see huge financial risk from the continued investment in fossil fuels.

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Who runs the fund?

The money is donated to a donor-advised fund (DAF) through the firm Impact Assets. There are students, alumni, faculty, and parents from each of the schools that are involved in an Advisory Council (AC) which organizes the fund and directs Impact Assets. Impact Assets is a 501(c)(3) so donations are tax-deductible; they charge a nominal management fee. Learn more about DAFs [here](#).

www.impactassets.org/about_us/who_we_are

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WHO WE ARE

The ImpactAssets team brings several decades of experience in impact investing, innovative financial services, philanthropy and wealth management.

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History

In 2001, Calvert Impact Capital launched a prototype of a new type of donor advised fund (DAF). Known as the Giving Fund, this DAF provided an enhancement to traditional donor advised funds in the form of socially responsible and impact investment options—enabling philanthropists to both “give and invest for the greater good.”

In 2010, Calvert Impact Capital created ImpactAssets to assume responsibility for the Giving Fund and transform it into something much bigger. In the years since, the ImpactAssets staff has multiplied, adding new functions including an impact investing field building initiative and the development of new [Impact Investment Notes](#) designed to democratize access to impact investing.

ImpactAssets is an independent 501(c)3 organization, but remains closely connected to Calvert Impact Capital. Board members designated by Calvert Impact Capital hold a minority position on ImpactAssets’ Board of Directors and Community Investment Partners, a subsidiary of Calvert Impact Capital, supplies administrative services to the firm.



	None – 5% Annually Suggested	5% Annually Required
EXCISE TAX ON INVESTMENT INCOME	None	Up to 2% of income
ANONYMITY	Available upon Request	Must file detailed public tax returns
SEPARATE TAX RETURN REQUIRED	No	Yes – Form 990
ANNUAL ADMINISTRATIVE COSTS	.125% to 1% for the Giving Fund	2.5% to 4%

Legal Information

A contribution to the Giving Fund represents an irrevocable contribution to ImpactAssets. Contributions are tax deductible, are not refundable, become subject to ImpactAssets' control and discretion once made and shall not be deemed a separate trust fund held by ImpactAssets in a trustee capacity.

Donors may select an investment allocation from among approved investment options, but investment decisions rest entirely with ImpactAssets. Donors can recommend grants to charitable organizations from their Giving Fund, but the final decision on all grants rests with ImpactAssets.

Grants may not be used to benefit the Giving Fund Donor or members of their families.

The assets of all Giving Fund accounts are commingled with those of ImpactAssets in general.

See the [Giving Fund Program Circular](#) for a complete discussion.

From: Tyler, Michael [mailto:M.Tyler@easternbank.com]
Sent: Monday, November 27, 2017 12:17 PM
To: Karen House <khouse@salemstate.edu>
Cc: Donna Beaulieu <dbeaulieu@salemstate.edu>; Doherty, John <j.doherty@easternbank.com>
Subject: RE: C200 on board agenda for 11/29

Hi Karen,

I was disappointed to receive your email, because I believe that the requested amendment to the Investment Policy is fundamentally short-sighted and could be detrimental to the University's financial health. I base this conclusion on several factors:

- By putting a deadline on the divestment process, the amendment would potentially require us to eliminate holdings at a disadvantageous price, and to further degrade the University's funds by preventing potential future investment regardless of whether Carbon Underground 200 firms act responsibly.
- The amendment sets a precedent for allowing political agendas to dictate investment decisions, which could be the first step down a slippery slope that might make it very difficult to protect the University's funds in the future.
- Divestment is counterproductive inasmuch as it merely transfers ownership from shareholders who care about the environment and who will engage with management on environmental preservation, to shareholders who only want to maximize profits regardless of environmental impact.

There is so much more I could say about the proposed amendment, but in practical terms the difference between the current language (divest when we prudently can) and the proposed amendment (divest within five years) isn't huge. If the Board adopts the proposed amendment, we will certainly comply with its terms.

I will be happy to discuss with you further, if you're interested.
All the best,
Michael

Michael A. Tyler, CFA
Chief Investment Officer
Eastern Bank Wealth Management

SSU Sustainability Update and Future Plans - November 20, 2017

UPDATE

Climate Commitment/GHG Reduction/Water

- President John Keenan signed the “We’re Still In” declaration
- 29% reduction in GHG emissions from FY2002-15 from buildings and owned vehicles
- Anticipate our 5th building (Theater) to receive LEED certification in the next few months
- Water use dropped 21% from FY2014-17

Recycling and Waste Management

- Rolling out single-stream recycling with new containers and new signage (signage to come soon)
- Recycled 125 mattress via UTEC, a youth empowerment organization in Lowell

Renewable Energy

- Worked with DCAMM to inspect solar panels on O’Keefe and Atlantic, fixing an issue that returns O’Keefe to full function
- Identified opportunities to place solar arrays on the Library, Gassett, and Marsh Hall before the end of the SREC II program’s powerful credits

Transportation and Bike Share

- Bike share program has exceeded expectations
- The two hubs on SSU’s campus represent 24% of the rides in the 11-hub system
- 227 SSU members; 2,339 trips taken
- SSU is participating in City of Salem bike study

Food Services

- Awarded EPA’s Regional Food Recovery Achievement Certificate for the third year in a row (announced 11/21/17)
- Adding napkins and teabags to compost should increase our composting rate significantly (a misunderstanding had kept them out)
- Composting has been expanded to the kitchens at 331 Lafayette
- Dunkin Donuts switched from Styrofoam to paper cups in response to student group request

Engagement – Fall 2017

- Discussed sustainability at SSU in three classes and via presentations to the MassPIRG students and the student tour guides
- A geography class is creating an interactive sustainability map of campus
- A business writing class is developing an infographic of sustainable transportation options
- Actively engaging students in food recovery solution that would benefit those who are food insecure
- Added/updated webpages on academics and engagement, recycling, and sustainable buildings, and general postings

FUTURE PLANS

- Calculate FY2017 GHG Emissions (Dec. 2017)
- Develop Sustainability and Climate Action Plan for Salem State
 - Convene advisory group
 - Conduct meetings and interviews to engage the community
 - Establish vision and key priority areas
 - Set 2022 and 2027 GHG reduction and waste management goals
 - Develop Action Plan and seek approval from PEC and BOT (by June 2018)
 - Promote recycling on campus and engage students in rolling out fiber recycling program

Investment Review

Account Name	SALEM STATE	Account Number	2427524
		Assets Held As Of	JUN 30, 2017
		Valued As Of	JUN 30, 2017

SUMMARY OF INVESTMENTS

Investment Summary

	Market Value	%	Estimated Income	Current Yield
CASH ITEMS				
PRINCIPAL CASH				
MONEY MARKET FUNDS	520,732.12	3.92	2,395	0.46
TOTAL CASH ITEMS	520,732.12	3.92	2,395	0.46
FIXED INCOME SECURITIES				
MUTUAL FUND - GOV. BONDS MUTUAL FUNDS	157,782.80	1.19	2,776	1.76
CORPORATE/OTHER BONDS	3,367,359.00	25.34	112,016	3.33
MUTUAL FUND - FIXED INCOME MUTUAL FUNDS	468,005.92	3.52	13,155	2.81
MUTUAL FUND - SHORT TERM FIXED INCOME MUTUAL FUNDS	333,169.14	2.51	6,996	2.10
TOTAL FIXED INCOME SECURITIES	4,326,316.86	32.56	134,943	3.12
EQUITIES				
COMMON STOCKS				
CONSUMER DISCRETIONARY	859,372.92	6.47	12,439	1.45
CONSUMER STAPLES	598,164.20	4.50	11,618	1.94
ENERGY	360,533.41	2.71	10,090	2.80
FINANCIALS	996,735.65	7.50	18,541	1.86
HEALTH CARE	935,299.46	7.04	15,397	1.65
INDUSTRIALS	659,193.17	4.96	13,738	2.08
INFORMATION TECHNOLOGY	1,250,505.86	9.41	7,337	0.59
MATERIALS	158,942.88	1.20	3,371	2.12
TELECOMMUNICATION SERVICES	96,644.24	0.73	4,999	5.17
UTILITIES	170,541.29	1.28	5,938	3.48
TOTAL COMMON STOCKS	6,085,933.08	45.80	103,468	1.70
MUTUAL FUND - LARGE CAP EQUITIES MUTUAL FUNDS	861,884.35	6.49	14,600	1.69
MUTUAL FUND - INTERNATIONAL EQUITIES MUTUAL FUNDS	581,231.41	4.37	11,199	1.93

Investment Review

Account Name	SALEM STATE	Account Number	2427524
		Assets Held As Of	JUN 30, 2017
		Valued As Of	JUN 30, 2017

SUMMARY OF INVESTMENTS

Investment Summary

	Market Value	%	Estimated Income	Current Yield
MUTUAL FUND-SMALL AND MID CAP EQUITIES MUTUAL FUNDS	497,745.55	3.75	6,728	1.35
MUTUAL FUND - INTERNATIONAL EMERGING MKTS MUTUAL FUNDS	413,706.90	3.11	10,167	2.46
TOTAL EQUITIES	8,440,501.29	63.52	146,162	1.73
TOTAL FUND	13,287,550.27	100.00	283,500	2.13

For the Tax Year Ending 12/31

Net Short Term Gain/Loss	44,114.23
Net Long Term Gain/Loss *	380,885.15

* Includes Long Term Capital Gains Dividends

SUMMARY OF INVESTED INCOME

Investment Summary

	Market Value	%	Estimated Income	Current Yield
CASH ITEMS				
INCOME CASH				
TOTAL FUND				

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST CURRENT INC	CURRENT YIELD	PLG COD
	CASH ITEMS								

Investment Review

Account Name SALEM STATE

Account Number 2427524
Assets Held As Of JUN 30, 2017
Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST INC	CURRENT YIELD	PLG COD
	PRINCIPAL CASH	0			0			0.0	
	MONEY MARKET FUNDS								
	FEDERATED GOV'T OBLIGATION TAX MANAGED FUND # 637	520,732			520,732	0.46	2,395	0.5	
	TOTAL CASH ITEMS	520,732			520,732		2,395	0.5	
	FIXED INCOME SECURITIES								
	MUTUAL FUND - GOV. BONDS								
	MUTUAL FUNDS								
1,480	1 SHARES BARCLAYS 7-10 YR TREAS	160,334	108.33	106.61	157,783	1.88	2,776	1.8	
	CORPORATE/OTHER BONDS								
215,000	COOPER U S INC. 6.1% 07/01/2017	215,540	100.25	100.00	215,000	6.10	13,115	6.1	
100,000	WELLS FARGO & CO 2.15% 01/15/2019	100,254	100.25	100.501	100,501	2.15	2,150	2.1	
125,000	DEUTSCHE BANK AG LONDON 2.5% 02/13/2019	125,505	100.40	100.372	125,465	2.50	3,125	2.5	
125,000	JOHN DEERE CAPITAL CORP 2.25% 04/17/2019	125,902	100.72	100.967	126,209	2.25	2,813	2.2	
150,000	E M C CORP 2.65% 06/01/2020	150,869	100.58	98.123	147,185	2.65	3,975	2.7	
100,000	WELLS FARGO & CO 3% 01/22/2021	103,366	103.37	102.118	102,118	3.00	3,000	2.9	
200,000	CISCO SYSTEMS INC 2.9% 03/04/2021	202,914	101.46	102.847	205,694	2.90	5,800	2.8	
200,000	XILINX, INC. 3% 03/15/2021	201,394	100.70	102.30	204,600	3.00	6,000	2.9	
200,000	MONSANTO CO 2.75% 07/15/2021	199,600	99.80	100.943	201,886	2.75	5,500	2.7	
125,000	TIME WARNER INC 3.4% 06/15/2022	132,090	105.67	102.755	128,444	3.40	4,250	3.3	
200,000	CVS 3.5% 07/20/2022	205,752	102.88	103.706	207,412	3.50	7,000	3.4	
200,000	FORD MOTOR CREDIT CO 4.25% 09/20/2022	207,465	103.73	105.053	210,106	4.25	8,500	4.0	
100,000	BANK OF AMERICA CORP 3.3% 01/11/2023	102,926	102.93	101.97	101,970	3.30	3,300	3.2	

Investment Review

Account Name SALEM STATE

Account Number 2427524
Assets Held As Of JUN 30, 2017
Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST INC	CURRENT YIELD	PLG COD
150,000	VODAFONE GROUP 2.95% 02/19/2023	153,403	102.27	100.534	150,801	2.95	4,425	2.9	
150,000	CITIGROUP 3.375% 03/01/2023	156,241	104.16	102.063	153,095	3.38	5,063	3.3	
100,000	ACE INA HOLDINGS 2.7% 03/13/2023	103,017	103.02	100.083	100,083	2.70	2,700	2.7	
150,000	CARDINAL HEALTH, INC. 3.2% 03/15/2023	156,477	104.32	101.97	152,955	3.20	4,800	3.1	
200,000	CELGENE CORPORATION 4% 08/15/2023	208,293	104.15	106.059	212,118	4.00	8,000	3.8	
175,000	AMERIPRISE FINANCIAL INC 4% 10/15/2023	181,995	104.00	106.843	186,975	4.00	7,000	3.7	
175,000	CSX CORPORATION 3.4% 08/01/2024	180,502	103.14	103.327	180,822	3.40	5,950	3.3	
150,000	CBS 3.7% 08/15/2024	154,098	102.73	102.614	153,921	3.70	5,550	3.6	
	TOTAL CORPORATE/OTHER BONDS	3,367,603			3,367,360		112,016	3.3	
MUTUAL FUND - FIXED INCOME									
MUTUAL FUNDS									
14,762	CALVERT INCOME FUND	240,768	16.31	16.52	243,868	0.58	8,547	3.5	
1,976	I SHARES TIPS BOND ETF	226,804	114.78	113.43	224,138	2.33	4,608	2.1	
	TOTAL MUTUAL FUNDS	467,572			468,006		13,155	2.8	
MUTUAL FUND - SHORT TERM FIXED INCOME									
MUTUAL FUNDS									
16,448.69	SHENKMAN SHORT DURATION HIGH INCOME FUND	163,500	9.94	10.03	164,980	0.30	4,968	3.0	
3,303	ISHARES FLOATING RATE BOND ETF	167,615	50.75	50.92	168,189	0.61	2,028	1.2	
	TOTAL MUTUAL FUNDS	331,115			333,169		6,996	2.1	
	TOTAL FIXED INCOME SECURITIES	4,326,624			4,326,318		134,943	3.1	
EQUITIES									

Investment Review

Account Name SALEM STATE

Account Number 2427524
Assets Held As Of JUN 30, 2017
Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST CURRENT INC	YIELD	PLG COD
COMMON STOCKS									
CONSUMER DISCRETIONARY									
130	AMAZON.COM, INC	102,739	790.30	968.00	125,840	0.00	0	0.0	
3,420	COMCAST CORP NEW CL A	111,445	32.59	38.92	133,106	0.63	2,155	1.6	
1,174	WALT DISNEY PRODUCTIONS	50,456	42.98	106.25	124,738	1.56	1,831	1.5	
831	HOME DEPOT INC	63,225	76.08	153.40	127,475	3.56	2,958	2.3	
1,832	NIKE INC. CL B	112,281	61.29	59.00	108,088	0.72	1,319	1.2	
1,784	STARBUCKS CORP	46,735	26.20	58.31	104,025	1.00	1,784	1.7	
1,246	ROYAL CARIBBEAN CRUISES, LTD.	101,962	81.83	109.23	136,101	1.92	2,392	1.8	
	TOTAL CONSUMER DISCRETIONARY	588,843			859,373		12,439	1.4	
CONSUMER STAPLES									
1,527	CVS HEALTH CORPORATION	123,232	80.70	80.46	122,862	2.00	3,054	2.5	
749	COSTCO WHOLESALE CORP, NEW	82,184	109.73	159.93	119,788	2.00	1,498	1.3	
691	KIMBERLY CLARK CORP	56,855	82.28	129.11	89,215	3.88	2,681	3.0	
2,724	KROGER CO	92,765	34.05	23.32	63,524	0.50	1,362	2.1	
2,159	MONSTER BEVERAGE CORP	104,903	48.59	49.68	107,259	0.00	0	0.0	
1,096	PROCTER & GAMBLE CO	73,162	66.75	87.15	95,516	2.76	3,023	3.2	
	TOTAL CONSUMER STAPLES	533,101			598,164		11,618	1.9	
ENERGY									
1,272	CHEVRON CORP	131,224	103.16	104.33	132,708	4.32	5,495	4.1	
2,366	CONOCOPHILLIPS	139,569	58.99	43.96	104,009	1.06	2,508	2.4	
2,899	HALLIBURTON CO	116,805	40.29	42.71	123,816	0.72	2,087	1.7	
	TOTAL ENERGY	387,598			360,533		10,090	2.8	

Investment Review

Account Name SALEM STATE

Account Number 2427524
Assets Held As Of JUN 30, 2017
Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST INC	CURRENT YIELD	PLG COD
FINANCIALS									
1,239	ALLSTATE CORP	80,933	65.32	88.44	109,577	1.48	1,834	1.7	
7,918	BANK AMERICA CORP	120,473	15.22	24.26	192,091	0.30	2,375	1.2	
281	BLACKROCK INC.	103,425	368.06	422.41	118,697	10.00	2,810	2.4	
2,212	J P MORGAN CHASE & CO	144,829	65.47	91.40	202,177	2.00	4,424	2.2	
3,200	MORGAN STANLEY	57,113	17.85	44.56	142,592	0.80	2,560	1.8	
2,115	CHARLES SCHWAB	87,581	41.41	42.96	90,860	0.32	677	0.7	
2,540	WELLS FARGO & CO	132,491	52.16	55.41	140,741	1.52	3,861	2.7	
	TOTAL FINANCIALS	726,845			996,735		18,541	1.9	
HEALTH CARE									
636	AMGEN INC	96,728	152.09	172.23	109,538	4.60	2,926	2.7	
620	BECTON DICKINSON CO	65,169	105.11	195.11	120,968	2.92	1,810	1.5	
2,191	BRISTOL MYERS SQUIBB CO.	128,164	58.50	55.72	122,083	1.56	3,418	2.8	
1,063	CELGENE CORPORATION	36,472	34.31	129.87	138,052	0.00	0	0.0	
1,218	DANAHER CORP	104,431	85.74	84.39	102,787	0.56	682	0.7	
2,158	HOLOGIC	81,140	37.60	45.38	97,930	0.00	0	0.0	
1,142	JOHNSON & JOHNSON	86,485	75.73	132.29	151,075	3.36	3,837	2.5	
1,449	MERCK & CO INC. NEW	50,047	34.54	64.09	92,866	1.88	2,724	2.9	
	TOTAL HEALTH CARE	648,636			935,299		15,397	1.6	
INDUSTRIALS									
2,075	EMERSON ELEC CO	120,052	57.86	59.62	123,712	1.92	3,984	3.2	
736	FEDEX CORPORATION	67,197	91.30	217.33	159,955	2.00	1,472	0.9	
4,744	GENERAL ELEC CO	121,444	25.60	27.01	128,135	0.96	4,554	3.6	
900	HONEYWELL INT'L INC.	62,243	69.16	133.29	119,961	2.66	2,394	2.0	
3,335	MASCO CORP	66,012	19.79	38.21	127,430	0.40	1,334	1.0	

Investment Review

Account Name SALEM STATE

Account Number 2427524
Assets Held As Of JUN 30, 2017
Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST INC	CURRENT YIELD	PLG COD
	TOTAL INDUSTRIALS	436,948			659,193		13,738	2.1	
	INFORMATION TECHNOLOGY								
803	ADOBE SYSTEMS INC.	87,150	108.53	141.44	113,576	0.00	0	0.0	
68	ALPHABET, INC. CL C	21,381	314.43	908.73	61,794	0.00	0	0.0	
182	ALPHABET, INC. CL A	74,057	406.91	929.68	169,202	0.00	0	0.0	
1,208	ANALOG DEVICES	58,897	48.76	77.80	93,982	1.80	2,174	2.3	
1,665	APPLE	151,495	90.99	144.02	239,793	2.52	4,196	1.7	
1,075	FACEBOOK CL A	108,476	100.91	150.98	162,304	0.00	0	0.0	
2,232	PAYPAL HLDGS INC	76,107	34.10	53.67	119,791	0.00	0	0.0	
1,763	SALESFORCE.COM	97,221	55.15	86.60	152,676	0.00	0	0.0	
1,465	VISA, INC	47,316	32.30	93.78	137,388	0.66	967	0.7	
	TOTAL INFORMATION TECHNOLOGY	722,100			1,250,506		7,337	0.6	
	MATERIALS								
1,148	DOW CHEMICAL CO	46,711	40.69	63.07	72,404	1.84	2,112	2.9	
787	P P G INDUSTRIES	81,559	103.63	109.96	86,539	1.60	1,259	1.5	
	TOTAL MATERIALS	128,270			158,943		3,371	2.1	
	TELECOMMUNICATION SERVICES								
2,164	VERIZON COMMUNICATIONS INC	81,020	37.44	44.66	96,644	2.31	4,999	5.2	
	UTILITIES								
735	DUKE ENERGY CORP NEW	55,961	76.14	83.59	61,439	3.42	2,514	4.1	90
2,378	XCEL ENERGY, INC.	62,927	26.46	45.88	109,103	1.44	3,424	3.1	
	TOTAL UTILITIES	118,888			170,542		5,938	3.5	
	TOTAL COMMON STOCKS	4,372,249			6,085,932		103,468	1.7	

Investment Review

Account Name SALEM STATE

Account Number 2427524
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Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST CURRENT INC	YIELD	PLG COD
MUTUAL FUND - LARGE CAP EQUITIES									
MUTUAL FUNDS									
701	SPDR S&P 500 ETF TRUST	159,036	226.87	241.80	169,502	4.63	3,244	1.9	
2,241	SPDR HEALTH CARE SELECT SPDR ETF	159,089	70.99	79.24	177,577	1.17	2,613	1.5	
6,792	SPDR FINANCIAL INDEX	159,190	23.44	24.67	167,559	0.40	2,730	1.6	
2,521	SPDR INDUSTRIAL SELECT	159,302	63.19	68.11	171,705	1.32	3,318	1.9	
3,208	SPDR TECHNOLOGY IDX	123,262	38.42	54.72	175,542	0.84	2,695	1.5	
	TOTAL MUTUAL FUNDS	759,879			861,885		14,600	1.7	
MUTUAL FUND - INTERNATIONAL EQUITIES									
MUTUAL FUNDS									
13,440.86	CALVERT INTERNATIONAL OPPORTUNITIES FUND	175,000	13.02	16.98	228,226	0.21	2,876	1.3	
4,508	I SHARES I SHARES EMU INDEX FUND	165,157	36.64	40.325	181,785	0.86	3,881	2.1	
2,747	WISDOM TREE EUROPE HEDGED EQUITY	137,381	50.01	62.33	171,221	1.62	4,442	2.6	
	TOTAL MUTUAL FUNDS	477,538			581,232		11,199	1.9	
MUTUAL FUND-SMALL AND MID CAP EQUITIES									
MUTUAL FUNDS									
2,396	I SHARES RUSSELL MIDCAP GROWTH	236,123	98.55	108.07	258,936	1.05	2,525	1.0	
2,009	I SHARES RUSSELL 2000 VALUE INDEX FUND	238,768	118.85	118.87	238,810	2.09	4,203	1.8	
	TOTAL MUTUAL FUNDS	474,891			497,746		6,728	1.4	
MUTUAL FUND - INTERNATIONAL EMERGING MKTS									
MUTUAL FUNDS									
2,280	I SHARES MSCI RUSSIA CAPPED ETF	77,305	33.91	28.80	65,664	1.00	2,278	3.5	
4,887	SPDR MSCI ACWI EX-US ETF	159,365	32.61	35.66	174,270	0.79	3,871	2.2	
4,256	VANGUARD EMERGING MARKETS ETF	157,046	36.90	40.83	173,772	0.94	4,018	2.3	

Investment Review

Account Name SALEM STATE

Account Number 2427524
 Assets Held As Of JUN 30, 2017
 Valued As Of JUN 30, 2017

SCHEDULE OF INVESTMENTS

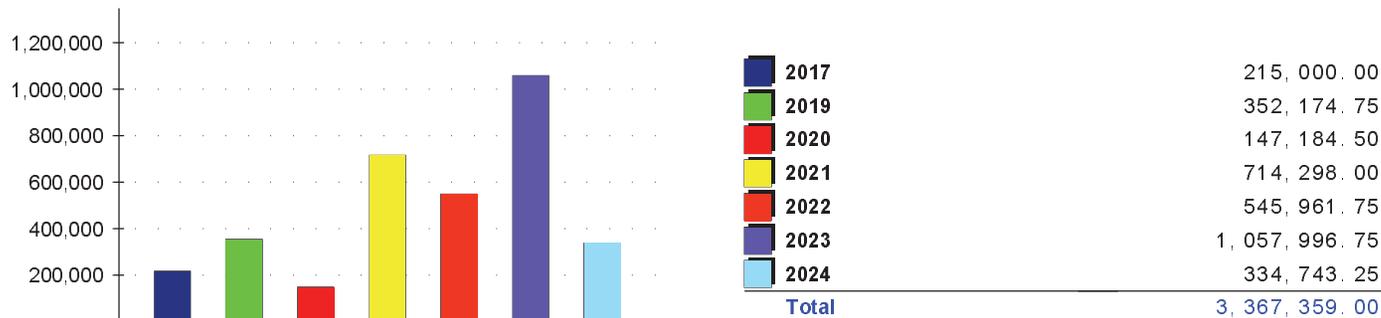
UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST CURRENT INC	YIELD	PLG COD
	TOTAL MUTUAL FUNDS	393,716			413,706		10,167	2.5	
	TOTAL EQUITIES	6,478,273			8,440,501		146,162	1.7	
	TOTAL FUND	11,325,629			13,287,551		283,500	2.1	

SCHEDULE OF INCOME INVESTMENTS

UNITS	DESCRIPTION	TAX COST	UNIT COST	CURRENT PRICE	MARKET VALUE	INC RATE	EST CURRENT INC	YIELD	PLG COD
	INCOME CASH	0			0		0.0		

MATURITY SCHEDULE

Maturities by Year





Salem, MA: This Brilliant Company Is Disrupting A \$200 Billion Industry



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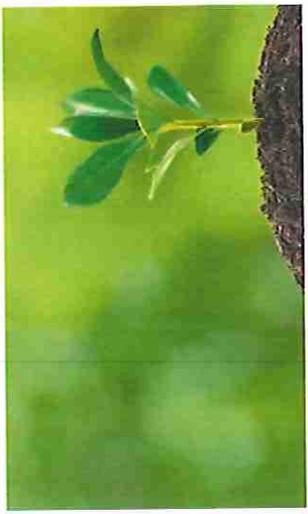
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Fossil fuel-free fund challenges perceptions about divestment with 16% annualized return

Staff | October 16, 2017



Carbon divestment doesn't have to mean sacrificing investment returns, a Canadian asset manager is arguing.

On Monday, Genus Capital Management Inc. released a report on the four-year performance of its fossil-free Canadian and global equity fund. The results show from the end showed that from May 2013 to the end of last year, the fund saw returns of 16 per cent annually. That compares to the 13.3 per cent annual return

reported by its benchmark over the period.

Read: [Should institutional investors divest from carbon?](#)

"Perception has long been that including fossil fuel stocks in a portfolio was necessary to generate returns, even for investors concerned about climate change," said Wayne Wachell, chief executive officer and chief investment officer of Genus Capital. "We now have conclusive data to demonstrate that isn't the case."

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While Canada's markets are heavy on energy stocks, the fund combines Canadian and global equities with a focus on particular sectors, including information technology, the financial industry, telecommunications. It also includes companies focused on discretionary consumer goods. The company touts reinvestment in cleaner and more efficient energy alternatives, along with active stock selection.

Read: Fewer Canadian pension funds lagging behind on climate change, study finds

"We have found that optimized portfolios without exposure to companies involved in extracting, refining or transporting fossil fuels can do better than those with investments in energy companies that create carbon pollution," the company said in its report. "The often-presumed assumption of a return penalty is not consistently borne out by our research."

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**MEETING OF THE BOARD OF TRUSTEES
October 11, 2017**

PRESENT: Trustees Chisholm, DeSimone, Duperval, Katzman, Lutts, Mattera (chair), Murphy, Russell, Scott, Segal and President Keenan. Secretary to the Board Montague and assistant secretary Sadowski were also present.

ABSENT:

The provisions of General Laws, Chapter 30A, having been complied with and a quorum of the Board being present, the Board of Trustees of Salem State University held a meeting in Marsh Hall, Room 210, Central Campus, Loring Avenue, Salem, Massachusetts, on October 11, 2017, with Paul Mattera, Chair, presiding.

* * *

I. CALL TO ORDER

Call to Order

Chair Mattera called the meeting to order at 5:10 p.m.

* * *

II. CONSENT AGENDA: APPROVAL OF MINUTES & COMMITTEE REPORTS

Approval of Minutes

Chair Mattera read the items contained on the Consent Agenda and asked for any objections or modifications to the minutes. Hearing none, he then asked for a motion to approve the minutes and upon a motion duly made by Trustee Scott and seconded by Trustee Segal, it was unanimously

VOTED: To approve the Consent Agenda (Attachment CA-17-01)

* * *

III. COMMITTEE ACTIONS

Risk Management & Audit: Trustee Lutts introduced the matters that were discussed earlier that afternoon in the Risk Management & Audit Committee meeting and then moved to the committee recommended motions. Trustee Lutts introduced the committee's recommended motion pertaining to recommended Trust Fund Guidelines. With no discussion and a unanimous roll call it was

Risk Management & Audit:

VOTED: The Board of Trustees of Salem State University hereby approves the amended Salem State University trust fund guidelines and policies per Attachment E.

Approval of Amended Trust Fund Guidelines

**The amended guidelines and policies shall be effective October 11, 2017.
(RMA -17-01)**

Trustee Lutts then moved on to the Auditors' report and said the university's numbers were better than expected and that the reports received good grades. Motions to be presented relate to acceptance of the audit reports at 95% completion with a provision that any significant changes will need to be discussed with the Vice President of Finance and Facilities and Chair of Risk Management. Upon a motion duly made by Trustee Scott and seconded by Trustee Katzman, it was unanimously

VOTED: The Board of Trustees of Salem State University hereby accepts the following audits and reports:

**Salem State University Financial Statements and Management's Discussion and Analysis
June 30, 2017 and 2016**

Independent Auditor's Reports as required by the Uniform Guidance and Government Auditing Standards and Related Information, June 30, 2017.

Further, the Board of Trustees delegates authority to accept the final financial statement package to Vice President Karen House, with the proviso that any significant changes from the draft statements, if any, be discussed first with the chair of the Risk Management and Audit committee. (RMA-17-02)

Trustee Lutts then offered a final motion regarding financial aid program and noted that the committee is asking for the Board's approve of the motion with the proviso that Vice President House discuss findings, if any, with the chair of Risk Management and Audit. Upon a motion duly made by Trustee DeSimone and seconded by Trustee Segal, it was unanimously

VOTED: The Board of Trustees of Salem State University hereby delegates authority to accept the Report Pursuant to the Massachusetts Office of Student Financial Assistance Audit Guide, June 30, 2017 to Vice President Karen House, with the proviso that findings, if any, be discussed first with the chair of the Risk Management and Audit committee. (RMA-17-03)

Academic Affairs & Student Life: Trustee Chisholm introduced the next matter for consideration which was the approval of a M.S. program in Athletic Training. Trustee Chisholm then distributed the financial plan for the proposed program and following a brief discussion concerning enrollment projections a motion was duly made by Trustee Segal and seconded by Trustee Russell, and it was unanimously

VOTED: The Board of Trustees of Salem State University Hereby approves the M.S. Program in Athletic Training as presented. (AA-17-01)

*Acceptance of
FY Audited
Financial
Statements &
Audit Reports
of Federal
Programs*

*Acceptance of
the Student
Financial
Assistance
Audit Guide,
June 30, 2017*

*Academic
Affairs &
Student Life:*

*Approval of the
M.S. Program
in Athletic
Training*

Chair Mattera explained that we would take the next item out of agenda order and discuss as a committee matter. Trustee Chisholm then went on to explain that the committee recommendation is to amend its name to “Academic Affairs, Student Life and Inclusive Excellence” and to revise its charter to reflect the added responsibilities. An amended charter was distributed for the Board’s review and comment. Trustee Chisholm reminded the Board that a separate vote would need to be taken to amend the By-laws. Following a brief discussion a motion was made by Trustee Segal and seconded by Trustee Russell, and it was unanimously

Approval of Academic Affairs, Student Life Charter change (to include Inclusive Excellence)

VOTED: The Board of Trustees of Salem State University approve the revisions made to the academic affairs and student life committee charter as presented (Attachment A).

This action shall be effective immediately upon its approval by the Board of Trustees. (AA-17-02)

Finance & Facilities Committee: Trustee Katzman reported that at its most recent meeting the Finance and Facilities Committee had a lengthy discussion regarding the university’s business model. Vice President of Finance and Facilities House then joined Trustee Katzman to further explain the university’s financial status and the factors that affect our financial model. Currently the university has a deficit of \$9M. To understand the background of this deficit, VP House explained that the university had a deficit of \$6.4M subsequent to approval of the budget and then the state appropriation was less than had been anticipated. In addition, our enrollment was lower than expected. We now expect a budget shortfall of \$2-3M. Our unknowns include unsettled union contracts (union contracts make up 70 percent of our budget) so with planned and unplanned expenses our deficits total \$9M. Chair Mattera inquired about the enrollment perspective. Executive Vice President Scott James presented an enrollment update (see Attachment B). EVP James responded that our most recent enrollment numbers are softer than last year and the numbers of degrees awarded are also down. With fewer students in the pipeline, students are making more college applications and competition to fill seats is intense. EVP James provided additional insight on the students who are applying and how the university might better position itself to appeal to potential students. Trustee Katzman suggested a discussion about enrollment strategies at a future meeting might be appropriate and Chair Mattera concurred.

Trustee Katzman then introduced the committee’s motion and with no further conversation upon a motion duly made by Trustee Scott and seconded by Trustees Lutts it was unanimously

VOTED: That the Board of Trustees approves hereby approves the reappointment of Eastern Bank Wealth Management to provide investment management services for certain Salem State University trust funds and authorizes the administration of the university to renew the contract for one year beginning December 16, 2017 (Investment management services contract. (FF-17-01)

* * *

*Finance & Facilities
Approval of the Reappointment of Eastern Bank Wealth Management, Investment Management Services Contract*

IV. REPORT OF THE PRESIDENT

Report of President

President Keenan offered his first report as university president and said it has been a whirlwind first fourteen weeks on the job with no contract for the three unions, the revocation of DACA, the budget deficit and forum last night on the campus climate and UMass Boston with a new residence hall as competition. These are definitely challenging times however President Keenan is excited to be here. Students, faculty, staff and board are wonderful and it's been great to have civil discussions about the difficulty issues of the day. It's also been exciting to put the final touches on the Strategic Plan. President Keenan thanked Trustees Katzman and Murphy for their assistance with the plan. The president would like to see enrollment grow by 2,000 over the next decade and the Strategic Plan will be our guide to getting there. It's amazing that we've done as well as we have given our current facilities. We've been collaborating with other community college campuses including North Shore, Northern Essex and Bunker Hill. The South Salem train stop would help our campus tremendously and the initiative is gaining traction. President Keenan and Provost Silva welcomed colleagues from China to campus earlier this morning and the president will travel to China this summer. There was some discussion regarding an internationalization strategy. President Keenan offered that a full report is coming within a month or so and we will have a full discussion at that time.

* * *

V. REPORT OF THE CHAIR

Chair Mattera announced that he would forego the chair's report and asked the president for an update on the recent campus vandalism and subsequent campus communications. An Executive Session will follow later to further discuss the investigation.

President Keenan discussed the crime scene and the cooperation the university has received from the FBI and neighboring police departments. If the culprits are found they will be prosecuted to the fullest extent of the law and immediately dismissed from school. Last Thursday there was a discussion on campus where we acknowledged that racism exists on our campus; students spoke at the event and Black, Brown and Proud requested the administration and Board come to a forum to hear more concerns. We joined the students at the Sophia and the students shared many difficult and poignant experiences of bigotry, racism, indifference and intolerance. There's widespread concern on campus and we need to understand how deep it is. President Keenan is forming a working group to do more. Diversity is the beginning. Inclusion is what needs to be embraced so that we can celebrate diversity in a meaningful way. The president wants to be sure that he's held accountable and that the university is held accountable for making sure that there is a thorough, positive process for students to report incidents.

A brief discussion followed and several of the trustees offered their opinions of what steps could or should be taken by the university and how the Board could be make the most difference.

VI. OPEN FORUM

Chair Mattera opened the meeting to public comment. Armando Martinez, a student active on campus thanked the Board and Vice President Gene Lebonite for their willingness to listen to students and assistance with the students' forum. Another student, Asia shared with the Board that there's a lack of intent in the university's emails and that the community needs to be educated on diversity. The university also needs to reevaluate how it treats its students and its payments methods. Chair Mattera thanked the students for engaging with the Board.

* * *

VII. OLD BUSINESS

Off-site Agenda – Trustee Scott thanked her fellow Committee members Trustees Katzman, Chisholm and Murphy along with President Keenan and Chief of Staff Bryant for their assistance in drafting the Off-site agenda. Trustee Scott gave an overview of the agenda and discussed the facilitators who will join the Board on December 8th. Request was made for input on the agenda and a brief discussion ensued. Chair Mattera and Trustee Scott agreed that the discussion concerning our community, diversity and inclusion continue as part of conversation II. Chair Mattera announced that the Off-site was an open meeting at the Hawthorne Hotel on December 8th.

Old Business

Committee Meeting Schedule – Chair Mattera then discussed the proposed rotating committee meeting schedule from year to year (as opposed from meeting to meeting) and it agreed that the schedule should move forward and that Board Secretary Montague would circulate the schedule.

* * *

VIII. NEW BUSINESS – Chair Mattera said there was no new business report. Trustee Scott shared that a senior at Salem State, Denyse Hairston is a 2014 Marian L. Heard Scholar. She was nominated by United Way’s partner agency, Lynn YMCA. Trustee Scott also announced that the Department of Higher Education (DHE) will hold a conference on December 4th regarding employability. The President’s Office will circulate registration information.

New Business

* * *

Hearing no further discussion Chair Mattera called for a motion to enter Executive Session to discuss a criminal investigation. President Keenan noted that the Board would not reconvene following the session. Upon a motion duly made by Trustee Scott and seconded by Trustee Lutts it was unanimously

VOTED: To adjourn to Executive Session

Voting in the Affirmative: Chisholm, DeSimone, Duperval, Katzman, Lutts, Murphy, Russell, Scott, Segal and Mattera (chair)

Voting in the Negative: None

Absent: None

When the Board had completed its discussion, it voted to come out of Executive Session at 7:11 pm.

Vote for Executive Session

* * *

Adjournment

IX. ADJOURNMENT

There being no further business to come before the Board and on a motion duly made by Trustee Chisholm and seconded by Segal it was unanimously

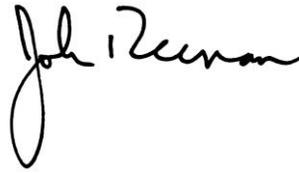
VOTED: To adjourn the meeting at 7:40 p.m.

Voting in the Affirmative: Chisholm, DeSimone, Duperval, Katzman, Lutts, Murphy, Russell,
Scott, Segal and Mattera (chair)

Voting in the Negative: None

Absent: None

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John Keenan". The signature is written in a cursive style with a large, looped initial "J".

John Keenan
President

A handwritten signature in black ink, appearing to read "Lynne Montague". The signature is written in a cursive style with a large, looped initial "L".

Lynne Montague
Secretary to the Board of Trustees

October 11, 2017

Consent Agenda Items:

Minutes approved:

Board of Trustee – June 6, 2017

Risk Management & Audit – September 27, 2017

Institutional Advancement/Marketing and Communications - September 27, 2017

Academic Affairs & Student Life – September 27, 2017

Finance & Facilities – September 27, 2017



REQUEST FOR TRUSTEE ACTION

Date: October 11, 2017
To: Board of Trustees
From: Karen P. House, Vice President for Finance and Facilities
Subject: Trust Fund Guidelines and Policies - Amended
Requested Action: Approval

Background: The Trust Fund Guidelines and Policies were approved by the Board of Trustees on June 8, 2016. Individual campuses are expected to issue Trust Fund Guidelines that pertain to their own campus and to review that guidance periodically.

The two substantive changes in this package are:

- The Board of Higher Education passed new guidelines related to post-presidential employment on June 14, 2016 which are incorporated into the university's trust fund guidelines.
- The addendum of related policies has been updated to show the most recent revisions since June 8, 2016.

In addition, there are a number of cosmetic changes throughout the document.

MOTION

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the amended trust fund guidelines policies per Attachment D.

Recommended motion

The Board of Trustees of Salem State University hereby approves the amended Salem State University trust fund guidelines and policies per Attachment D.

The amended guidelines and policies shall be effective October 11, 2017.

Committee Assigned: Risk Management and Audit Committee
Committee Action: Approved
Date of Action: September 27, 2017

Trustee Action:

Trustee Approval Date:

Effective Date:



Signed: _____

Title: Secretary, Board of Trustees

Date: _____

SALEM STATE UNIVERSITY

TRUST FUND GUIDELINES

AND POLICIES

PREPARED FOR THE BOARD OF TRUSTEES

Approved: June 8, 2016
Amended: October 11, 2017

Salem State University
Division of Finance and Facilities

Trust Fund Guidelines and Policies

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Salem State University

Standards for the Expenditure of Trust Funds

Definition

The term "trust funds" as used in public higher education refers to non-appropriated funds utilized by the university. "Trust funds" are created when a non-appropriated revenue source is generated. Significant revenue sources may result in stand-alone, individual "trust funds" while smaller revenue sources may be pooled.

Revenue Sources

Salem State University has two primary sources of income: state appropriations and funds held in trust, which are generated primarily from fees, gifts and grants, auxiliary revenues, capital financing and miscellaneous sources. These trust fund revenues are used to complement state appropriations in order to ensure sufficient funding for the University programs.

The expenditure of state appropriated funds is governed by detailed state regulations which control expenditures for the university. Statutory authority for enforcing state regulations rests with several entities including the State Auditor, the State Comptroller and the Department of Higher Education.

Although technically "public" funds, trust funds are not "appropriated" funds and, therefore, are not subject to the same spending rules and regulations as appropriated funds. In many cases, other external regulations govern expenditures of trust funds. For example, the Massachusetts State College Building Authority governs the Residence Hall Trust Fund. Where external, third-party regulations do not exist, responsibility for regulating and controlling the expenditure of trust funds rests with the Salem State University Board of Trustees. The Department of Higher Education does not have statutory authority for trust funds.

Role of Trust Funds

For Salem State University, trust funds play an important role in financing the education of our students. The statutory authority for trust funds resides in the Commonwealth of Massachusetts General Laws Chapter 15A, Section 5 and Chapter 73, Section 14, as well as various other statutes governing public institutions of higher education. These statutes allow the Department of Higher Education and Boards of Trustees to create financial accounts to fund and account for certain campus projects, programs and activities. These statutes stipulate that all income received be held in trust and be expended for the purposes for which the trust funds were established. This is also a fundamental tenant of the required form of accounting within the nonprofit higher education industry, which is known as fund accounting.

Trust funds are used in connection with a variety of campus activities such as auxiliary

services (e.g. student housing, parking and food service), student activities and public services. Revenues generated through each activity are used to fund the costs of the associated program or activity. The expectation is that over time most trust funds will become self-supporting.

These guidelines and policies form the basis for the procedures to be followed in establishing, administering and expending trust funds at Salem State University in conjunction with the internal control policies and the general and specific policies and procedures for accounting and fiscal administration of the University.

Purpose of Standards

It is important that the development, utilization and management of trust funds be conducted in a manner that complies with applicable laws and statutes and meets with the approval of the Salem State University Board of Trustees. Standards for the expenditure of trust funds are intended to provide some guidance and suggestions on selected expenditures made in the interest of promoting the mission of the university. These standards provide greater clarity and uniformity in the determination of appropriate and inappropriate expenditures of these funds.

Underlying Principles

A number of important principles underlie these standards:

- (1) Standards should not be construed as an attempt to usurp campus based authority or to centralize decision-making. Salem State University must have the flexibility to fulfill its distinctive mission within the public higher education system.
- (2) There is no substitute for personal ethics and sound judgment. Expenditures of trust funds should be made with the assumption that those decisions and choices will become public knowledge.
- (3) Accountability is a critical component of local autonomy. The university will be held accountable for choices and decisions, including the expenditure of trust funds.
- (4) Salem State University is a member of, and participates within, the larger community it serves. As such, the university must interact with community groups and civic associations and it is appropriate for it to make modest and limited expenditures in support of these entities.
- (5) State universities, like private universities, must engage in activities that promote employee morale, generate philanthropic support and enhance the wellbeing of the University. Accordingly, reasonable and appropriate expenditures to support such activities can and should be made.
- (6) Trust funds should be spent in a manner which is reasonable and prudent. Travel, entertainment and other expenditures should be made in

moderation and good taste. Additional guidelines are detailed in the university's Business Expense Policy, policy governing On/Off-Campus Events, Recruitment Policy, Travel Policy, and Gift Card Policy referenced in the Addendum.

Responsibility and Reporting

- (1) Responsibility for these specific trust fund guidelines and regulations rests with the Salem State University Board of Trustees.
- (2) Responsibility for trust fund administration rests with the president and the vice president for finance and facilities. Records should be maintained in accordance with proper accounting procedures including documentation of receipts, disbursements and bank accounts.
- (3) All trust fund activities are subject to regular audit inspection by the State Auditor's Office.
- (4) Clear definitions, goals and objectives shall be established for each trust fund. An annual budget will be developed, reviewed by the president and submitted to the board of trustees for approval. Such budgets should include sufficient detail to permit the identification of major expenditures over \$500,000 in a fiscal year.
- (5) The president or designee shall provide an accounting of trust fund revenues and expenditures to the board of trustees on a quarterly basis. Audited financial statements shall be submitted to the Department of Higher Education, the Office of the State Auditor and the Office of the State Comptroller on an annual basis. Additional reports may be requested at the discretion of the board of trustees or the appropriate state department/office.
- (6) The level of detail in the quarterly reports must be sufficient to satisfy board of trustees' inquiries and audit requirements and should also include: certification by the president or designee that all records were maintained in accordance with proper procedures, including documentation of receipts, disbursements and bank accounts, and that all expenditures were made to advance Salem State University's mission.
- (7) The Finance and Facilities Committee of the Board of Trustees shall review the report and it should be provided to the full board of trustees. The president is responsible for reporting any violations of trust fund expenditure standards to the board of trustees. The board of trustees shall be responsible for follow-up action taken to address each violation.
- (8) As necessary, the Risk Management and Audit (RMA) Committee of the Board of Trustees will receive reports by auditors for review and discussion with the full board of trustees. The RMA Committee reviews an annual external audit prior to its acceptance by the full board of trustees. Furthermore, the RMA Committee reviews audited financial statements and financial compliance reports.

- (9) Wherever specific expenditures require prior approval, the approval of the annual budget by the board of trustees satisfies prior approval requirements for any expenditure.
- (10) The president or his/her designee has discretion over individual contracts where trust funds are used up to \$500,000 except in the following circumstances which require prior approval of the board chair:
- a. Expenditures which personally benefit the president, if any, which shall not be in violation of the State Ethics laws.
 - b. Expenditures for furnishings or decoration of the president's office or home;
 - c. Expenditures for fees or individual membership dues over \$500 except for fees or dues associated with professional organizations that directly advance the mission; or that support licensure/certifications required by an employee in the course of his/her job responsibility.
 - d. Expenditures for trustee travel;
 - e. Expenditures for purchase or lease of motor vehicles used by the president or other administrators.
- (11) Individual annual expenditures for contracts over \$500,000 require the prior approval of the board of trustees which can be granted through approval of the budget schedule identifying them. In rare cases when approval of the full board of trustees is not immediately available, the executive committee of the board may grant verbal approval on behalf of the board of trustees. Such an action must be reported at the next regularly scheduled meeting of the full board of trustees.

Prohibited Expenditures

The following expenditures are expressly prohibited:

- (1) Expenditures which would be in violation of state ethics laws or other applicable laws.
- (2) Purchase or lease of vehicles for the exclusive use of employees other than the president. Vehicle(s) for the exclusive use of the president, if any, shall be governed by the terms of an employment contract duly approved by the board of trustees.
- (3) Contributions to individuals seeking elected public office or to political action committees (PACs) or equivalent organizations
- (4) Personal loans granted to university staff or members of the board of trustees. (This prohibition excludes regular financial aid programs at the institution.)
- (5) Initiation fees and membership dues for private clubs.

Categories of Allowable Expenditure

(1) Expenditures of a Personal Nature

- a. Whenever expenditure would personally benefit or might be seen to personally benefit an individual, that person is prohibited from approving such expenditure, regardless of the dollar amount. In all such circumstances, the president or his/her designee must approve the expenditure in advance.
- b. In the case of the president, the chairperson of the board of trustees must provide approval of such expenditures which will be reported to the Risk Management and Audit Committee on an annual basis.

(2) General Campus Projects

- a. When furnishings or decorations are paid from university funds for the president's home or office, they must have the prior approval of the board of trustees. All such expenditures shall conform to university and state policies and procurement regulations and guidelines.
- b. Contractor and consultant fees paid from trust funds shall conform to state law pertaining to such activities.
- c. Publications, including presidential reports, newsletters, advertisements, magazines, invitations should demonstrate moderation and good taste.
- d. Individual membership fees for civic, academic and/or professional organizations must have prior approval of the president or his/her designee except for fees or dues associated with professional organizations that directly advance the mission or licensure/certification required by responsibility. In the case of the president, the board of trustees must give prior approval.
- e. Modest contributions to charitable organizations are permissible provided they will further the public purpose of the university.

(3) Travel and Subsistence Costs

Refer to the University Travel and Business Expense Policy which may change from time to time.

(4) Personal and Student Loans

- a. It is permissible to provide salary disbursements through the Commonwealth's Dynacash procedures to employees if the university cannot meet payroll due to technical or processing difficulties. (e.g. computer failure, problems with timesheet processing, etc.).
- b. In the case of students, loans can only be made by the president or the director

of financial aid and should be made only via standardized financial aid loan programs or, rarely, in exceptional circumstances ("emergency loan").

(5) Employee and Student Recognition Activities

- a. Certain expenditures of trust funds to enhance employee and student morale or to recognize achievement, longevity, performance or retirement can be made in moderation. Gift cards may not be purchased as a form of recognition. (Refer to gift card policy). All recognition activities must comply with specific University policies and procedures (see Addendum).

(6) Entertainment of University Donors, Alumni, Friends, Guests and Visitors

- a. Such entertainment by any members of the university should be in moderation and good taste.
- b. It is appropriate for the university president to entertain guests in his/her home as part of official duties. Such entertainment should be in moderation and good taste.
- c. Sports, theater and other entertainment tickets can be purchased with trust funds if the event is being held on campus or directly supports the university's programs. Such expenditures may be made to support student attendance at events.

(7) The Board of Higher Education (BHE) Guidelines and Procedures for Transitional, Post-Presidential Employment Agreements for State University and Community College Presidents as approved on June 14, 2016 is incorporated by reference. An excerpt from the BHE policy is as follows:

"Trustees of state universities and community colleges are prohibited from entering into post-presidential employment agreements with a sitting president unless the agreement is memorialized in the President's Board of Higher Education (BHE) – approved Terms of Appointment or otherwise approved by the Commissioner of the Department of Higher Education, in consultation with the chair of the BHE.

Proposed agreements with a former president who has resigned within the last 12 months shall be submitted to the commissioner for review to determine 1) whether the proposed agreement is a retirement benefit or severance agreement which would require BHE approval; or 2) whether the agreement is reasonable on its face using the Guidelines and Procedures for Transitional, and Post-Presidential Employment Agreements for State University and Community College Presidents, and delegates to the Commissioner the authority to act on behalf of the Board of Higher Education as approved by the Board of Higher Education on June 14, 2016."

(8) Miscellaneous

- a. Attracting individuals of high quality can require assisting them with the costs of relocation from other parts of the state or country. If considered necessary by the supervisor and with appropriate campus approvals (assistant vice president human resources and the relevant vice president), university departments may pay a new employee a reasonable transition allowance to cover their personal moving, relocation and employment transition costs. If a transition allowance is paid, the allowance will be taxable to the employee and paid via payroll. The allowance must be (1) authorized in advance, (2) documented in writing to the employee and for the human resource files, and (3) directly related to the commencement of employment at Salem State University.
- b. Modest purchases of flowers, gifts and cards from trust funds may be made by the president or his/her designee. Appropriate occasions include but are not limited to: death or illness of an employee, student, trustee or person of special importance to the university, or immediate family member of said persons; appreciation for contributions that enhance the mission of the university.

Closing Comments

As noted previously, these standards for the expenditure of trust funds are not all-inclusive. It would be impossible to outline every possible type of expenditure which might be made utilizing these funds. However, when a trust fund expenditure decision must be made, it should be made in recognition of the public nature of these funds and in moderation and good taste.

Salem State University - Trust Funds based on L3 in Fund Hierarchy				
Trust Fund	Description	Count of PeopleSoft Funds	FY15 Total Revenue	Examples
L3_Agency	Funds held by Salem State as custodian/fiscal agent for others	6	-	Fund 6222 - Unclaimed Checks
L3_Education & General Funds	Basic operations of the university; unrestricted funds	53	128,378,885	Fund 1000 - State Maintenance Appropriation Fund 2311 - Darwin Festival Fund 1247 - Investments
L3_Gifts	Funds donated by others outside the university for a specific purpose	2	296,548	Fund 2313 - Departmental Gifts
L3_Grants	Funds provided by an external party in return for a specific project or other action by the university. Majority of SSU's grants are for financial aid to students.	258	20,673,825	Fund 2200 - Pell Grant
L3_Net Invested in Capital Assets	Capitalizable facility projects; depreciation; debt.	19	7,945,075	Fund 7020 - DCAM Solar Panel 7006-9800 Fund 7040 - Invested in Cap Assets-Net
L3_Residence Hall Trust Fund	Self-supporting operations that provide services to students, faculty, or staff; restricted by an entity outside of the university (MSCBA owned facility operations)	11	16,084,078	Fund 2517 - CDTR-Atlantic Hall
L3_Restricted other		65	817,213	Fund 2304 - Alpha Lambda Delta/ACADEMIA
L3_Total Loan Funds	Funds provided by others for the purpose of Student Financial Aid in the form of loans, not grants. Debt belongs to the recipient, not the university.	5	-	Fund 4204 - Graduate Student Loan Fund
L3_Total Restricted Endowments	Most endowments are held by the Foundation, but the university has one historical endowed fund	1	18,863	Fund 5002 - Cruttenden Endowment
L3_Unrestricted Auxiliaries	Self-supporting operations that provide services to students, faculty, or staff; not restricted by an entity outside of the university	4	180,023	Fund 6204 - Dining Hall Trust Fund
Total Individual Funds in PeopleSoft (Active)		424	174,394,510	

**Salem State University
Trust Fund Document**

The Board of Trustees of Salem State University establishes trust funds as authorized by Massachusetts General Laws Chapter 15A, Section 5 and Chapter 73, Section 14. These statutes authorize the university, through its board of trustees, to create trust funds to finance and account for certain campus projects, programs and activities. The board of trustees shall establish those fees required to maintain a reasonable balance of unrestricted operating funds.

These statutes also stipulate that income received (other than state and federal appropriations) be held in trust and be expended for the purposes for which each trust fund is established. Trust funds are used to provide an accounting structure within which the university shall operate those activities deemed necessary for the operation and maintenance of those university projects, programs and activities directly associated with the particular trust fund.

The Salem State University Board of Trustees shall be the primary legal entity responsible for the collection of revenues and expenditures of funds associated with these accounts. The board of trustees delegates the authority to operate trust funds to the president, who in turn delegates the following responsibilities to the vice president for finance and facilities:

- (1) Establishing and maintaining accurate records of all transactions affecting the fund balance of each account. Records shall be maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts.
- (2) Maintaining cash collected in the name of the trust fund within an approved banking establishment as approved by the chief financial officer
- (3) Complying with all Massachusetts General Laws, which may directly or indirectly affect the nature of expenditures from the trust funds, and compliance with all guidelines and standards, issued by the governor of Massachusetts under his/her executive authority.
- (4) Providing the president with a detailed accounting of trust fund expenditures on a routine basis. The president or her designee shall provide quarterly reports to the board of trustees for review. Such reports are disseminated to the board of trustees through the finance and facilities committee.

Salem State University – Educational and General Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Education and General Trust Fund.**"
- (2) The Education and General Trust Fund shall be used to provide support for the general purpose of university operations, which include academic costs, costs associated with student services, institutional support, operation and maintenance of the physical plant, and costs related to public service to enhance university/community relations. Funds may be used for the purpose of scholarship aid and financial assistance to students from time to time as deemed appropriate by the president and/or the board of trustees.
- (3) The revenue sources for this trust fund will be derived from undergraduate tuition and fees and graduate student tuition and fees, application fees, unrestricted gifts, library fees, payment plan fees, transcript fees, locally generated day tuition revenues and various other revenue sources not in conflict with existing university contracts or university policies and procedures. Funds may be transferred to or received from other trusts for expenditure in this trust fund as appropriate. An example of an appropriate transfer to another fund would be transferring funds to the Net Investment in Plant Trust Fund to cover depreciation, debt service, and/or capital improvement projects.
- (4) Examples of appropriate expenditures would be, but not limited to the following: office supplies, travel expenses, payroll expenses, electricity, consultant expenses, books, paper, equipment, and other expenses related to the daily operation of the university.

Expenditures must be in compliance with the expense policies of the university listed in the addendum.

- (5) Examples of inappropriate expenditures would be, but not limited to the following: any items indicated as inappropriate trust fund expenditures within the Trust Fund Guidelines issued by the Department of Higher Education.
- (6) Retained Education and General Trust Fund balances may be created or preserved in order to protect against any economic or enrollment downturns or budget rescissions from the commonwealth, or to create a pool for future strategic initiatives.

Salem State University – Agency Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Agency Trust Fund.**"
- (2) The Agency Trust Fund shall be used to provide financial custodial and accounting services for an external entity for projects that closely relate to the mission of Salem State University, and for which Salem State has clear legal authority to engage in such services.
- (3) The revenues sources for this trust fund will vary depending on the nature of the entity and its activities.
- (4) Examples of appropriate expenditures would include distribution of funds collected, for the purposes intended via the collection.
- (5) Examples of inappropriate expenditures would include items which are not intended, by the legal owner, to be purchased.
- (6) Retained Agency Trust Fund balances do not legally belong to Salem State University and are held on behalf of the other entity.

Salem State University – Gifts Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Gifts Trust Fund.**"
- (2) The Gifts Trust Fund shall be used to provide support for the programs and services of the university in accordance with the specific intent expressed by the donor. It should be noted that most such gifts are received initially by the Salem State University Foundation and are conveyed to the university by the foundation.
- (3) The revenues sources for this trust fund will be gifts.
- (4) Examples of appropriate expenditures would include equipment, supplies, payroll as intended by the donor.
- (5) Examples of inappropriate expenditures would include items that are not consistent with the intent of the gift; for example, buying laboratory equipment from a theatre department gift fund.
- (6) Retained Gifts Trust Fund balances are carried forward and may only be spent in a manner consistent with the donor's intent.

Salem State University – Grants Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as **“Salem State University – Grants Trust Fund.”**
- (2) The Grants Trust Fund shall be used to provide support for projects or financial aid, as agreed upon between the university and the grantor,
- (3) The revenues sources for this trust fund will be Federal, state, private and other grants and contracts.
- (4) Examples of appropriate expenditures would include financial aid, labor, equipment, supplies, travel as per the approved terms and conditions of the grant award.
- (5) Examples of inappropriate expenditures would include items not allowable under the terms and conditions of the grant.
- (6) Retained Grants Trust Fund balances are not normally anticipated at the conclusion of the award year or the expiration of the final grant period.

Salem State University – Net Invested in Capital Assets Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as **“Salem State University – Net Invested in Capital Assets Trust Fund.”**
- (2) The Net Invested in Capital Assets Trust Fund shall be used to provide support to acquire, pay for, and improve the physical assets of the university (campus and major equipment.)
- (3) The revenue sources for this trust fund will include funds transferred from the Education and General Trust Fund, properly authorized debt issuance, state capital grants and similar sources.
- (4) Examples of appropriate expenditures would include design and construction services, depreciation, payment of principal and interest on indebtedness.
- (5) Examples of inappropriate expenditures would include routine supplies for a department.
- (6) Retained Net Invested in Capital Assets Trust Fund balances will carry forward for future capital asset needs.

Salem State University – Residence Halls Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as **“Salem State University – Residence Halls Trust Fund.”**
- (2) The Residence Halls Trust Fund shall be used to provide support for the operation of the residence halls on campus.
- (3) The revenues sources for this trust fund will be room rents charged to students and rental of space for conference and other guests.
- (4) Examples of appropriate expenditures would include resident advisor labor, maintenance of the residence halls, utilities, housing grants to students, or replacement of furniture in the halls.
- (5) Examples of inappropriate expenditures would include expenses that do not benefit the residents of the halls or contribute to the upkeep and programming of them.
- (6) Retained Residence Hall Trust Fund balances remain intact and carry forward. The Massachusetts State College Building Authority (MSCBA) establishes certain reserve requirements through various contracts with the Massachusetts Department of Higher Education and the bondholders for project financing.

Salem State University – Other Restricted Activities Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Other Restricted Activities Trust Fund.**"
- (2) The Other Restricted Activities Trust Fund shall be used to provide support for operations of programs that are related to the university's mission but dictated by external parties,
- (3) The revenues sources for this trust fund will be fees, dues, and miscellaneous sales.
- (4) Examples of appropriate expenditures would include program costs for various academic honor societies.
- (5) Examples of inappropriate expenditures would include items not consistent with the purpose and intent of the collected funds.
- (6) Retained Other Restricted Activities Trust Fund balances carry forward for future use.

Salem State University – Loan Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Loan Trust Fund.**"
- (2) The Loan Trust Fund shall be used to provide support for financial aid for students which take the form of loans to students or parents, primarily from the Federal Department of Education.
- (3) The revenues sources for this trust fund will be funds provided by the lender on behalf of the student or parent borrower. It should be noted that such funds are not revenue to the university per se; the university is acting as a pass-through from the lender to the intended borrower.
- (4) Examples of appropriate expenditures would include disbursements to the borrower, often then credited directly to the student's account balance with the university.
- (5) Examples of inappropriate expenditures would include purchases of goods or services for university departments.
- (6) Retained Loan Trust Fund balances generally do not exist as the loan funds are disbursed in their entirety every year.

Salem State University – Restricted Endowments Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Restricted Endowments (Cruttenden) Trust Fund.**"
- (2) The XYZ Trust Fund shall be used to provide support consistent with the original Cruttenden gift.
- (3) The revenues sources for this trust fund will be payout associated with the invested funds or as per an approved endowment spending policy.
- (4) Examples of inappropriate expenditures would include items inconsistent with the intent of the endowment.
- (5) Retained Restricted Endowment Trust Fund balances remain in perpetuity as required by the terms of the endowment.

Salem State University – Unrestricted Auxiliaries Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – Unrestricted Auxiliaries Trust Fund.**"
- (2) The Unrestricted Auxiliaries Trust Fund shall be used to provide services for students, faculty, and staff as anticipated through the particular program which is housed in this trust fund, for example the dining program or the bookstore.
- (3) The revenues sources for this trust fund will be generated by the particular auxiliary program.
- (4) Examples of appropriate expenditures would include payments to the outsourced vendor who provides the auxiliary service.
- (5) Examples of inappropriate expenditures would include purchases for items not related to the auxiliary programs.
- (6) Retained trust fund balances carry forward or may be transferred to the university's educational and general fund and used as the university deems appropriate to achieve its mission and purpose.

THIS IS A TEMPLATE IN THE EVENT OF CREATING ADDITIONAL TRUST FUNDS IN THE FUTURE

Salem State University – XYZ Trust Fund

In accordance with the fiduciary requirements of the Board of Trustees of Salem State University this fund is subject to the following terms and conditions:

- (1) The trust shall be exclusively known as "**Salem State University – XYZ Trust Fund.**"
- (2) The XYZ Trust Fund shall be used to provide support for _____,
- (3) The revenues sources for this trust fund will be _____.
- (4) Examples of appropriate expenditures would include _____
- (5) Examples of inappropriate expenditures would include _____
- (6) Retained XYZ Trust Fund balances _____

Addendum – List of Related Policies – Date of Most Recent Revision

1. Business Travel Policy – August 2011
2. Gift Card Policy – May 10, 2016
3. Fraud Waste and Abuse Policies – November 2009 (Toolkit from State Comptroller’s Office)
4. Information Security Policy - September 21, 2016
5. Time and Effort Reporting Policy - December 2010
6. Investment Policy – June 7, 2017
7. Contract Signing Authority – November 2015
8. Presidential Business, Travel and Entertainment Expenses Policy – October 8, 2013

List of related procedural documents

1. Business Expense Reimbursement Procedures – ongoing
2. Cash Handling Procedures – January 7, 2016
3. Procard Procedures Manual – August 29, 2017
4. Vehicle Use – December 22, 2010
5. Guidelines and Procedures for Transitional and Post-Presidential Employment Agreements for State University and Community College Presidents – Board of Higher Education - June 14, 2016

 REQUEST FOR TRUSTEE ACTION

Date: October 11, 2017
To: Board of Trustees
From: Karen P. House, vice president for finance and facilities
Subject: FY17 audited financial statements and audit reports of Federal programs
Requested Action: Discussion/Acceptance

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the following motion pertaining to the FY17 Salem State University audited financial statements and programs and related materials.

MOTION

The Board of Trustees of Salem State University hereby accepts the following audits and reports:

Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2017 and 2016

Independent Auditor's Reports as Required by the Uniform Guidance and Government Auditing Standards and Related Information, June 30, 2017

Further, the Board of Trustees delegates authority to accept the final financial statement package to Vice President Karen House, with the proviso that any significant changes from the draft statements, if any, be discussed first with the chair of the Risk Management and Audit committee.

Committee Assigned: Risk Management and Audit

Committee Action: Approved

Date of Action: October 11, 2017

Trustee Action: Approved

Trustee Approval Date: October 11, 2017

Effective Date: October 11, 2017

Signed: *Karen P. House*

Title: Secretary of the Board of Trustees

Date: *10/11/2017*



 REQUEST FOR TRUSTEE ACTION

Date: October 11, 2017
To: Board of Trustees
From: Karen P. House, vice president for finance and facilities
Subject: FY17 audit report of state financial aid programs
Requested Action: Discussion/Delegation of Authority

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the following motion pertaining to the FY17 audit report of state financial aid program.

MOTION

The Board of Trustees of Salem State University hereby delegates authority to accept the Report Pursuant to the Massachusetts Office of Student Financial Assistance Audit Guide, June 30, 2017 to Vice President Karen House, with the proviso that findings, if any, be discussed first with the chair of the Risk Management and Audit committee.

Committee Assigned: Risk Management and Audit
Committee Action: Approved
Date of Action: October 11, 2017

Trustee Action: Approved
Trustee Approval Date: October 11, 2017
Effective Date: October 11, 2017

Signed: *Karen P. House*
Title: Secretary of the Board of Trustees
Date: *10/11/2017*



Program Description:

The Athletic Training Program at Salem State University has been given the task to develop a plan to transition the current undergraduate Athletic Training Program to a Professional MSAT Program. The proposed Professional MSAT degree will consist of 60 credit hours of graduate course work completed over two years. Both the didactic and clinical experience requirements are designed to prepare graduate athletic training students with the knowledge and skills to transition to autonomous practice as a certified and licensed athletic trainer. The CAATE has mandated that by 2022 all Athletic Training Programs must issue a Master's of Science in Athletic Training (MSAT) degree in order to operate an accredited Athletic Training Program.

Assumptions

Enrollment	16 the first year; 1 new student each period after
Revenue	60 credits required; 2-year program with 95%+ graduation rate
Tier Level	Calculated at the Tier 3 level for additional fees
In State / Out of State	Using all In State tuition and fee rates
Other Fees	Increases by 5.72% each year for 4 years
Salary	A 2% increase is forecasted for the base salary
Fringe	A 5% increase is forecasted for both FT and PT faculty and staff
Non-labor inflation	A 3% increase is forecasted for each year

Financial Summary

	FY 2020	FY 2021	FY 2022	FY 2023
MSAT Financial Summary	Forecast	Forecast	Forecast	Forecast
Enrollment - Fall Headcount (Not Financial FTE)	16	33	35	37
Benefited Faculty	1.00	1.00	1.00	1.00
Faculty Overload	0.00	1.00	1.00	1.00
Staff	1.00	1.00	1.00	1.00
Adjunct Faculty	0.08	0.24	0.24	0.24
Contract Employees	0.05	0.05	0.05	0.05
Total FTEs	2.13	3.29	3.29	3.29
Revenue				
Tuition and Fees	\$294,374	\$541,829	\$595,419	\$652,494
Total Revenue	294,374	541,829	595,419	652,494
Operating Expenses				
Compensation	141,603	192,707	198,744	205,058
Other Expenses	52,800	51,294	52,833	54,418
Total Operating Expenses	194,403	244,001	251,577	259,476
Net Revenue over Expense	\$99,971	\$297,828	\$343,842	\$393,018

Note: Faculty workload assumes a new faculty member with specific qualifications requested in the DHE New Program proposal (p. 16). The remaining workload assumes appropriately assigned courses that could be conducted by qualified adjunct instructors and existing faculty members wishing to increase their workload with additional graduate course work.



Board of Trustees Academic Affairs, Student Life and Inclusive Excellence Committee Charter

Purpose

The Academic Affairs, Student Life and Inclusive Excellence Committee of the Board of Trustees shall be a permanent committee that oversees the university's central mission of providing a high quality, student-centered education grounded in strong academic programs, inclusive excellence, active civic engagement, and enriching personal and professional development. The committee makes recommendations to the Board of Trustees regarding academic policies and programs, assessment of academic programs and educational experiences, student retention, student life, inclusive excellence, campus climate, and matters related to faculty tenure and promotion. The committee is dedicated to fostering academic excellence and student success.

Responsibilities

Academic Affairs

1. Review and approve new academic undergraduate and graduate degree programs.
2. Ensure that the university assesses the effectiveness of its academic programs on a regular basis and makes adjustments as needed.
3. Review and recommend faculty for tenure, promotion and terminal contracts.
4. Review and provide counsel on matters related to academic policies; academic advising; teaching innovation; and research, scholarship, and creative activity.
5. Ensure that academic quality is a top priority of the university.

Student Life

1. Review enrollment trends and make recommendations to improve student recruitment and retention efforts.
2. Provide guidance to ensure diverse, high quality, co-curricular program offerings that meet a broad range of student interests.
3. Ensure comprehensive career planning support services to undergraduate/graduate students and alumni.
4. Advise and provide counsel on issues of student concern including residence life, spiritual life, and student conduct, and diversity and multicultural affairs.
5. Ensure that student success is a top priority of the university.

Inclusive Excellence

1. Review diversity, equity and inclusion strategies and make recommendations to create and sustain a positive campus climate.
2. Provide guidance to ensure that Inclusive Excellence as a comprehensive approach employs a dual focus in efforts, concentrating on both increasing compositional diversity, and creating learning environments in which students of all backgrounds can thrive.
3. Ensure that multi-layered processes exist to maintain accountability and recognition for institutional diversity progress.
4. Advise and provide counsel on best practices for recruiting, hiring and retaining a diverse faculty and staff.
5. Ensure that advancing Inclusive Excellence is a top priority of the university.

Membership

The Academic Affairs, Student Life and Inclusive Excellence Committee shall have not fewer than three Trustees appointed by the Chair of the Board. The President shall be a member of each committee, ex officio, voting. Committee members may include individuals who are not trustees so long as the majority membership of the committee is comprised of trustees. The Chair shall have the authority to appoint non-trustee members advisory, nonvoting to the committee to serve until the next annual meeting. Members may be appointed to the committee on a temporary basis, by the Chair, as may be required.

Quorum

A majority of the members shall constitute a quorum.

Staff Designee

The provost and academic vice president is the senior staff member supporting the committee for matters related to academic affairs. The vice president of student life and enrollment management is the senior staff member supporting the committee for matters related to student life. The vice president of inclusive excellence is the senior staff member supporting the committee for matters related to inclusive excellence.

Meetings

The committee is expected to meet at least four times each academic year. Frequency and timing of meetings shall be determined by the chair of the Board of Trustees. Meetings shall be conducted in compliance with the state's Open Meeting Law. Executive sessions may be conducted periodically and shall be limited to those matters permitted by the state's Open Meeting Law.

Agenda, Minutes, and Reports

The chair of the committee, in collaboration with the staff designees, shall be responsible for establishing the agendas for meetings. An agenda, together with relevant materials shall be

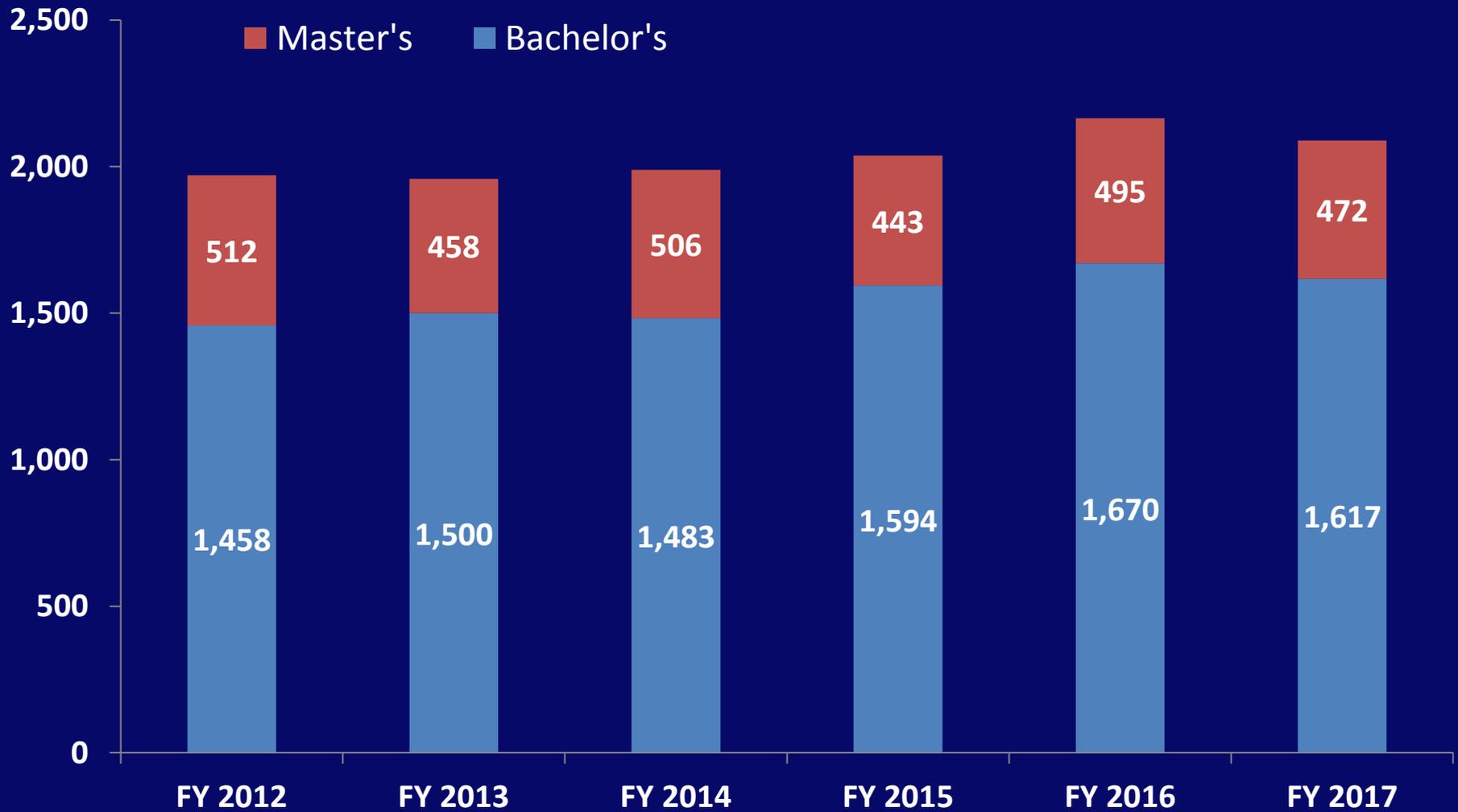
made available to committee members at least five days in advance of the meeting. Minutes for all meetings shall be drafted by the staff designee, reviewed by the committee chair, and approved by committee members at the following meeting.

Enrollment Update

Scott R. James, Ed.D.
Executive Vice President

October 11, 2017

Degrees Conferred



Retention Rate and Graduation Rate – FT Freshman

Fall Term	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Cohort	1,129	1,064	1,133	974	986	989	1,086	1,073	1,127	1,082	1,130
<u>Retention Rate</u>											
1 Year Retention Rate	72.63%	71.15%	74.85%	81.21%	73.33%	73.81%	78.08%	81.17%	79.86%	79.11%	77.17%
2 Years Retention Rate	60.58%	62.50%	63.46%	65.81%	59.63%	63.60%	67.22%	69.62%	68.59%	67.47%	
3 Years Retention Rate	55.98%	57.52%	55.52%	59.55%	57.30%	58.85%	63.08%	64.59%	64.95%		
<u>Graduation Rate</u>											
4 Years Graduation Rate	20.02%	21.99%	22.51%	27.21%	27.59%	28.72%	37.02%	39.42%			
5 Years Graduation Rate	37.82%	39.00%	40.34%	46.10%	44.83%	48.03%	54.14%				
6 Years Graduation Rate	45.35%	45.58%	45.90%	49.90%	51.52%	52.07%					

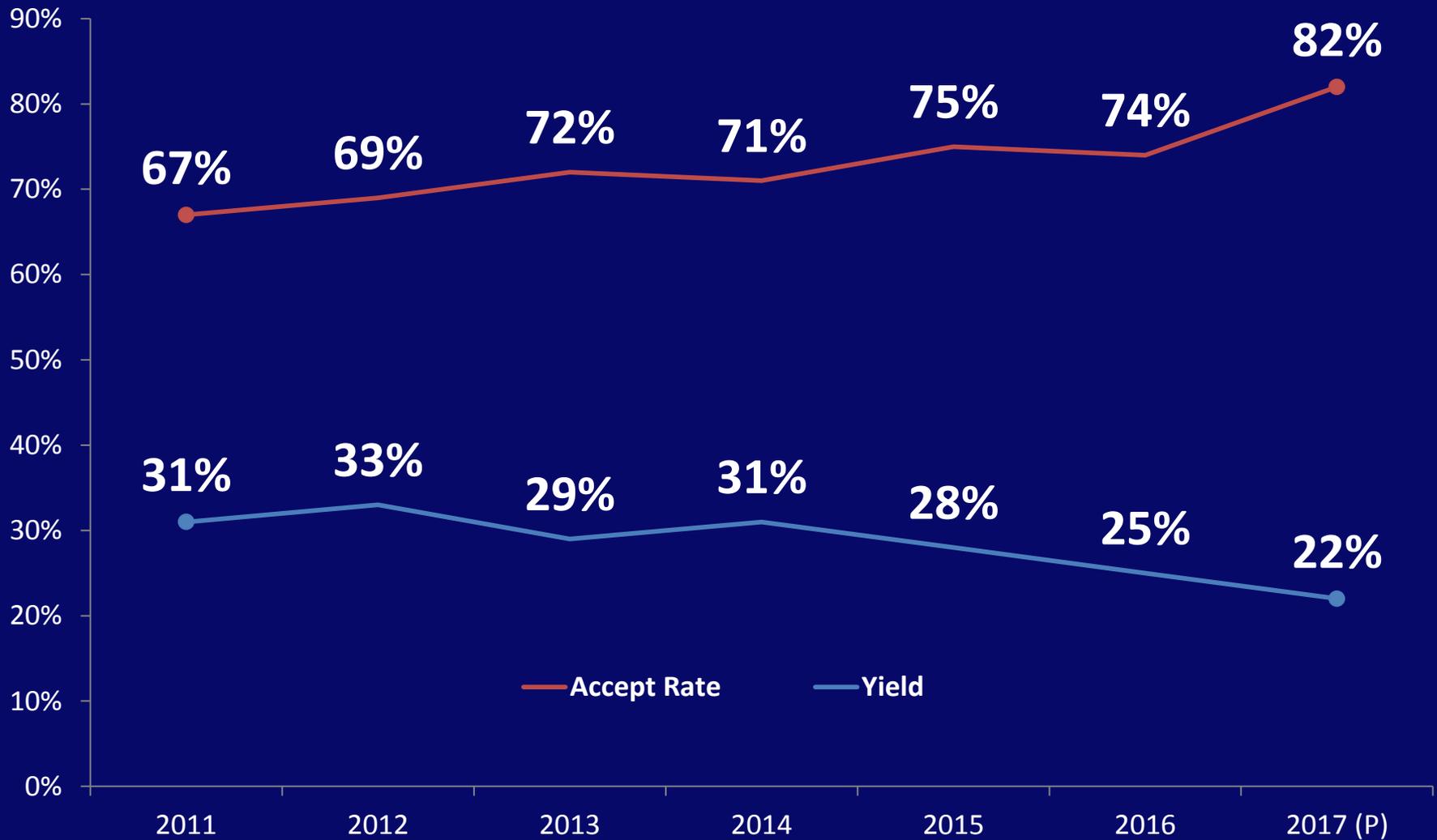
Highlighted data is as of 10/9/2017

Undergraduate Admissions Funnel

	Freshman		Transfer	
	Fall 16	Fall 17 (P)	Fall 16	Fall 17 (P)
Applied	6,139	6,194	1,543	1,404
Accepted	4,517	5,074	1,268	1,155
Enrolled	1,145	1,103	752	617
Accept Rate	74%	82%	82%	82%
Yield	25%	22%	59%	53%

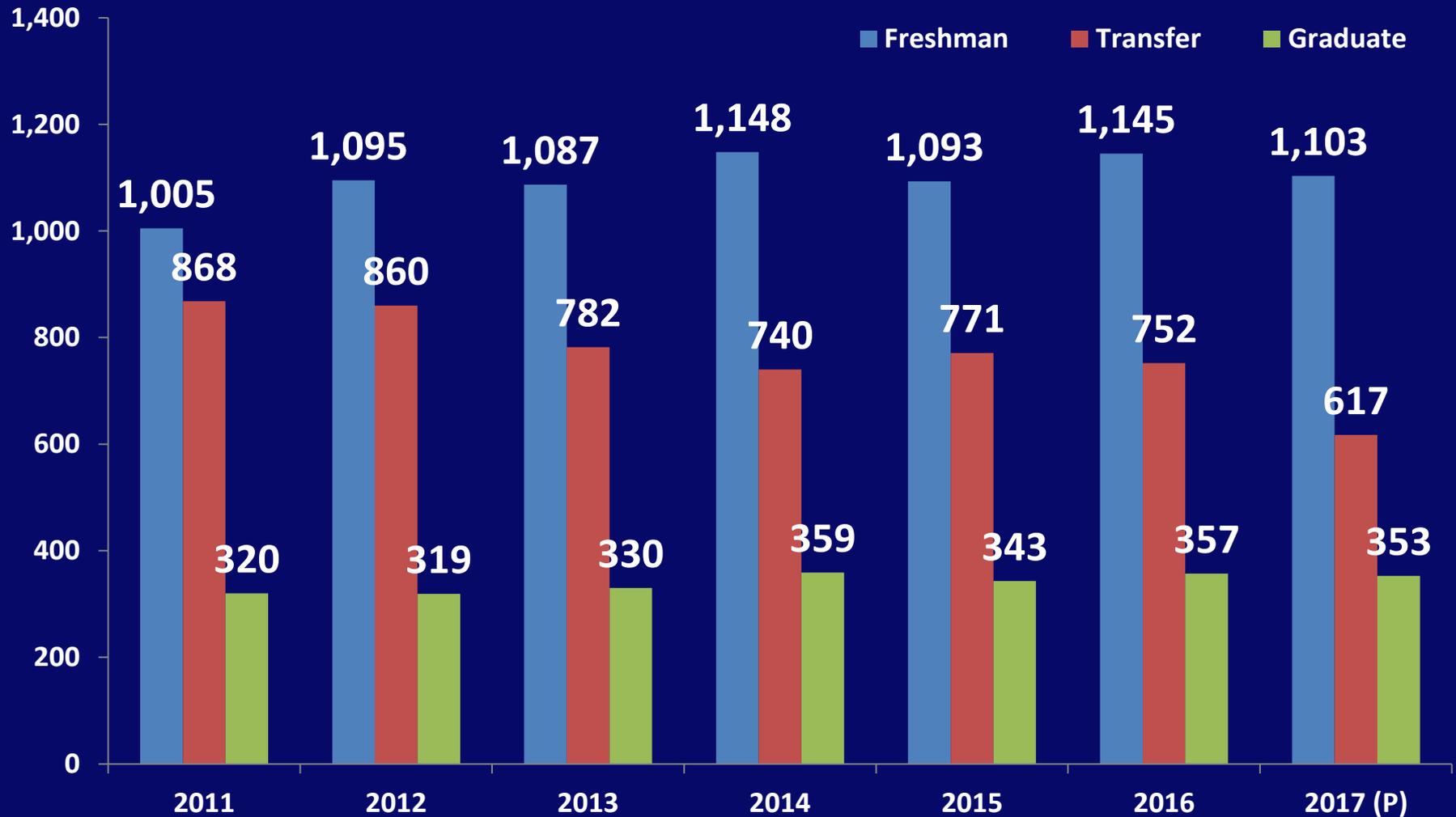
Freshman – Accept Rate and Yield

(2017 data as of Oct 9, 2017)



New Students Entering in Fall Term

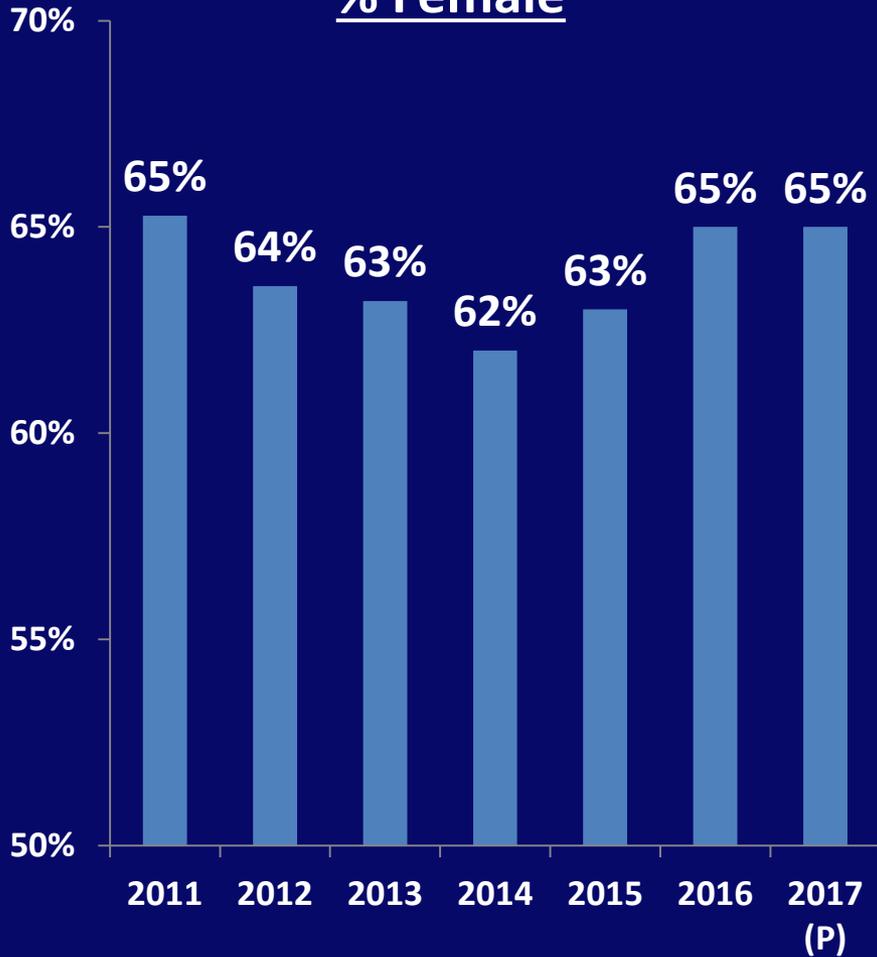
(2017 data as of Oct 9, 2017)



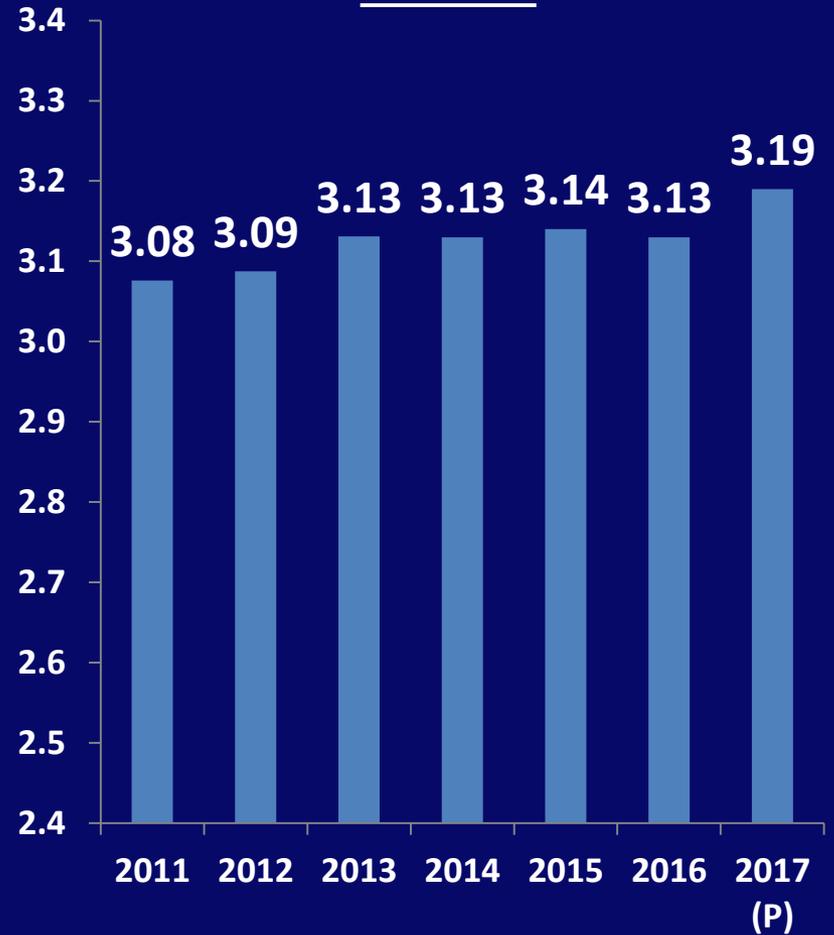
Freshman

(2017 data as of Oct 9, 2017)

% Female



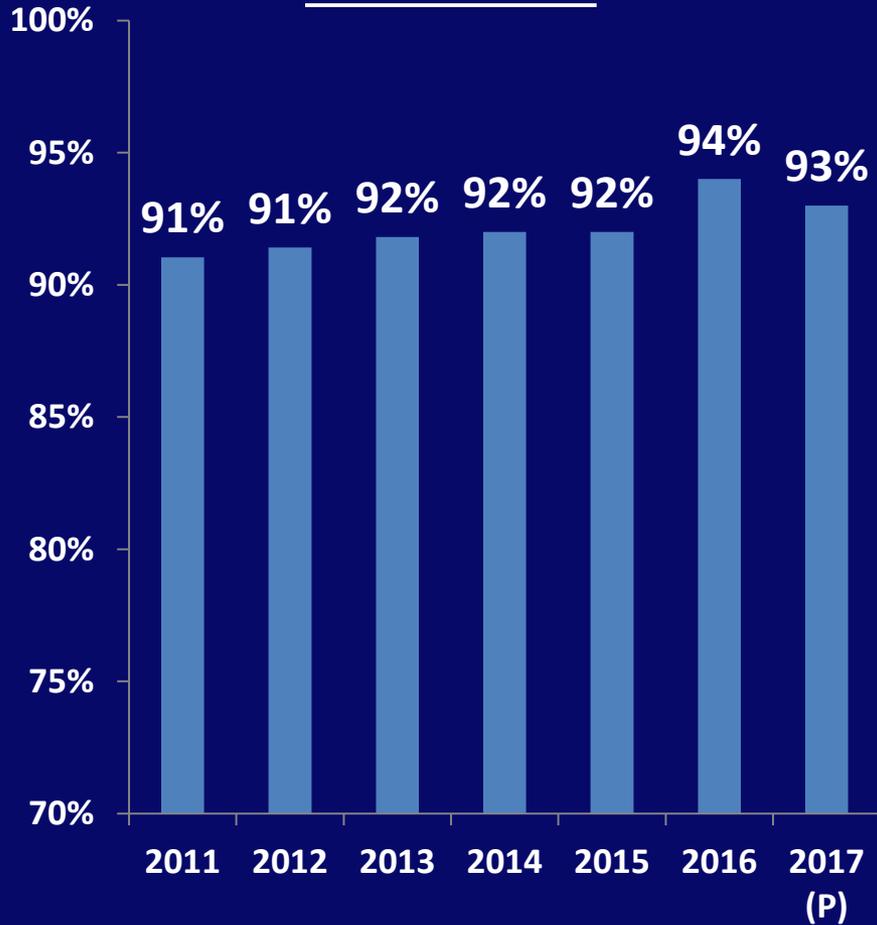
HS GPA



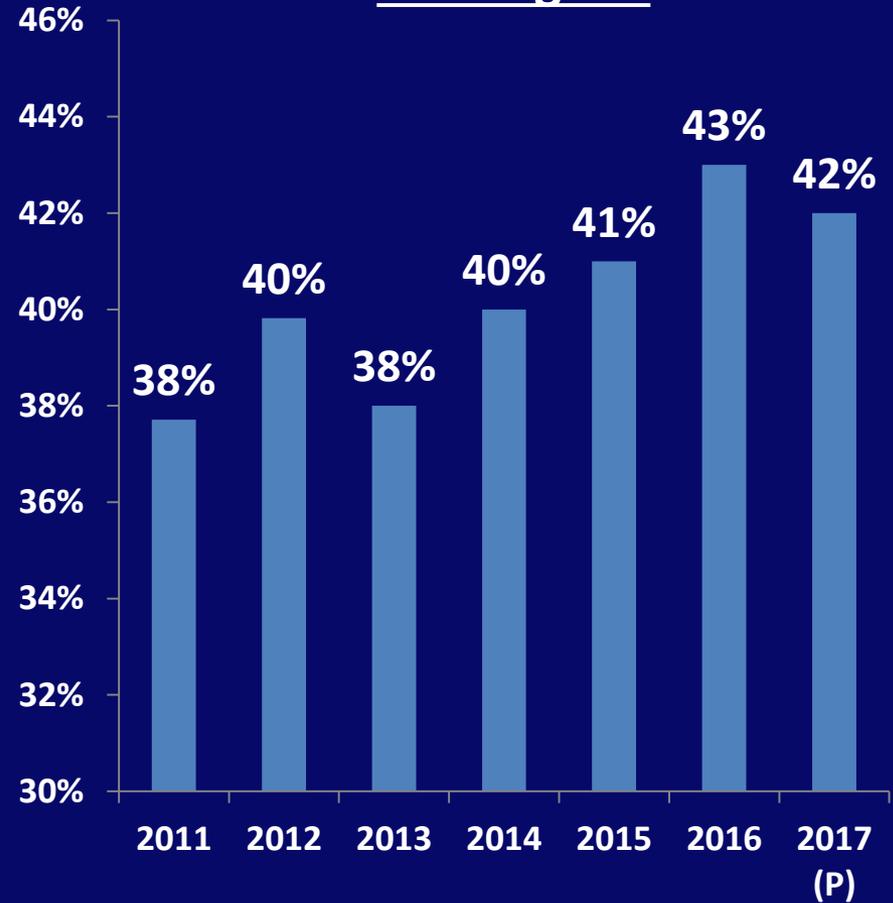
Freshman

(2017 data as of Oct 9, 2017)

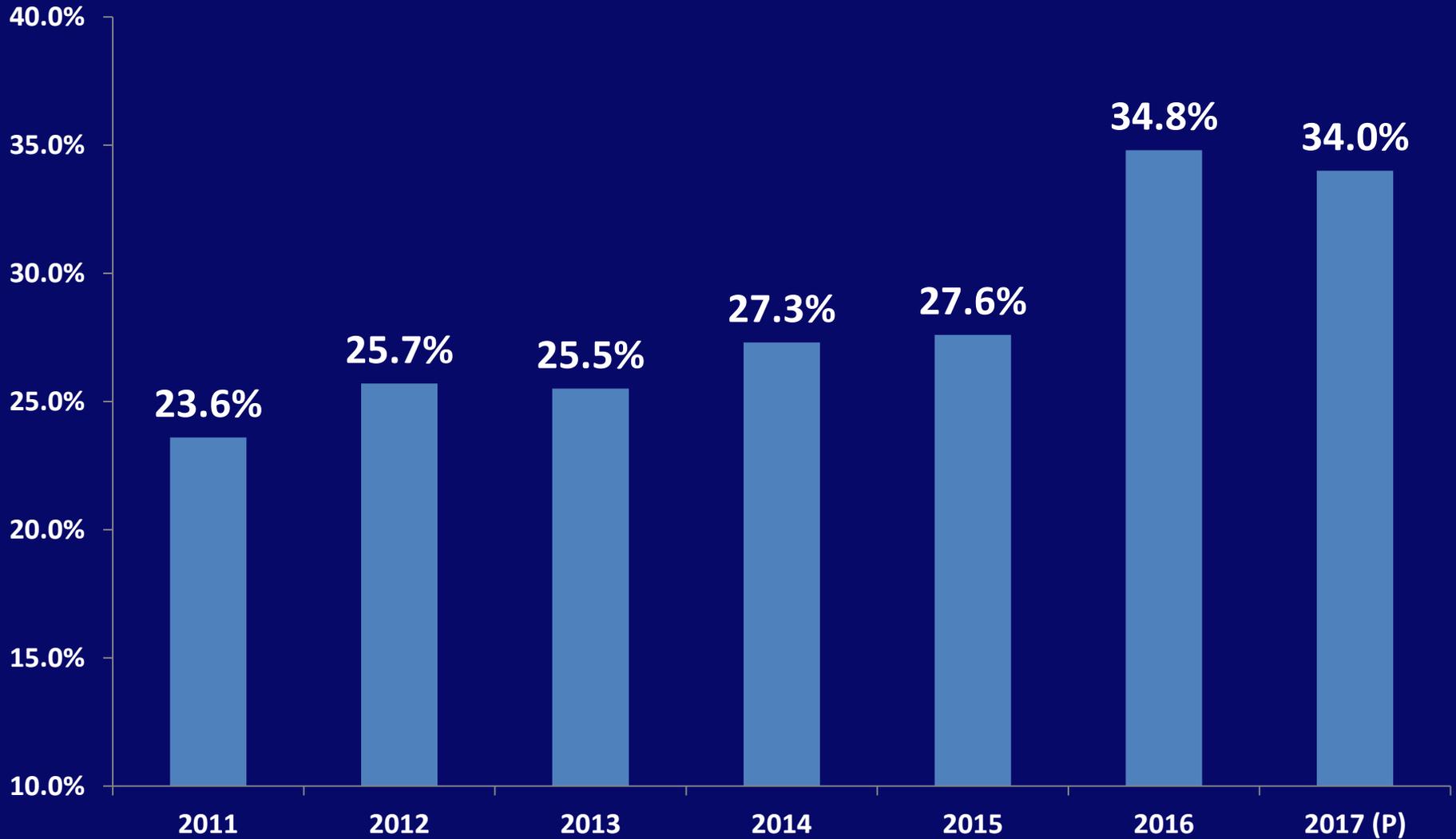
Filed for Aid



Pell Eligible



Freshman – Students of Color (2017 data as of Oct 9, 2017)



Total Enrollment

	Fall 2017	Fall 2016
UG Headcount	6,535	6,637
CE Credits	5,276	6,216
Grad Credits	11,336	10,851

SUBJECT: Risk Management and Audit Committee Meeting Report for October 11, 2017

The Risk Management and Audit Committee of the Board of Trustees met on Wednesday, October 11, 2017, in the Paul Petrowski Conference Room located in Marsh Hall on the Central Campus of Salem State University.

Present for the Committee: Trustees Lutts (chair), Scott (vice chair), DeSimone, Segal, Chair Mattera, President Keenan (ex-officio), Vice President House (committee co-liaison), Assistant Vice President Labonte (committee co-liaison), staff assistant Beaulieu.

Absent for the Committee: Trustee Katzman

Trustee Lutts, committee chair, called the meeting to order at 3:33 pm.

FY17 audits for discussion and acceptance

Representatives from O'Connor & Drew, the university's external auditing firm present were Mark Dow, managing partner and Zach Laflash, audit manager.

Required communications (Attachment A) noted a clean unmodified opinion issued on the university's financial statements and no material weaknesses regarding internal controls.

The university financial statements for fiscal year ending June 30, 2017 and 2016 (Attachment B) along with the management's discussion and analysis and related footnotes were reviewed. The independent auditors' reports as required by the uniform guidance and government auditing standards and related information (Attachment C) includes a report on federal programs and internal controls. There were two findings disclosed that are required to be reported in accordance with the Uniform Guidance. No material weaknesses and no significant deficiencies regarding internal control over the federal programs had been identified.

Trustee Segal **MOVED** that the Risk Management and Audit Committee hereby recommends the Board of Trustees approve the following motion pertaining to the FY17 Salem State University audited financial statements and programs and related materials, **SECONDED** by Trustee Scott:

Recommended motion

The Board of Trustees of Salem State University hereby accepts the following audits and reports:

Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2017 and 2016

Independent Auditor's Reports as Required by the Uniform Guidance and Government Auditing Standards and Related Information, June 30, 2017

Further, the Board of Trustees delegates authority to accept the final financial statement package to Vice President Karen House, with the proviso that substantive changes from the draft statements, if any, be discussed first with the chair of the Risk Management and Audit committee.

On a voice vote, the motion passed unanimously.

Massachusetts Office of Student Financial Assistance (MOSFA)

The Report Pursuant to the Massachusetts Office of Student Financial Assistance Audit Guide, June 30, 2017 work is substantially complete. There are no findings to date and the report is due to the state by the end of the calendar year.

Trustee Segal **MOVED** that the Risk Management and Audit Committee hereby recommends the Board of Trustees approve the following motion pertaining to the FY17 audit report of state financial aid programs, **SECONDED** by Trustee Scott:

Recommended motion

The Board of Trustees of Salem State University hereby delegates authority to accept the Report Pursuant to the Massachusetts Office of Student Financial Assistance Audit Guide, June 30, 2017 to Vice President Karen House, with the proviso that findings, if any, be discussed first with the chair of the Risk Management and Audit committee.

On a voice vote, the motion passed unanimously.

A draft of supplementary ratios (Attachment D) prepared by the finance staff of the university was distributed.

As a best practice, the university's management team voluntarily left the room to provide the trustees with an opportunity for a discussion with the auditors without the presence of management.

There being no further business to come before the committee, Trustee Scott moved and Trustee Lutts seconded a motion to adjourn.

MOTION: To adjourn the meeting.

On a voice vote, the motion passed unanimously.

The meeting adjourned at 5:04 pm.

Prepared by D. Beaulieu, staff assistant, finance and facilities

Salem State University

October 11, 2017

25 Braintree Hill Office Park, Suite 102
Braintree, MA 02184
617.471.1120



Required Communications

AUDITORS' RESPONSIBILITY UNDER GAAS

- We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- In carrying out this responsibility, we planned and performed the audit to obtain reasonable – not absolute – assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud.
- An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion.

Required Communications - Continued

AUDITORS' RESPONSIBILITY UNDER GAAS - Continued

- We issued an unmodified opinion on the University's financial statements.
- No material weaknesses/significant deficiencies were noted within the Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Two findings while performing the Single Audit:
 - Timely reporting of student enrollment changes to NSLDS
 - Timely calculation and return of federal awards for a withdrawn student

Required Communications - Continued

Significant Accounting Policies and Transactions

- Initial Selection of or Changes in Policies
 - No changes in accounting policies. All accounting policies are discussed in Note 1 of the financial statements.
- Significant Transactions
 - Completion of the Mainstage Theater renovation project costing approximately \$27 million dollars, including approximately \$1.9 million in capitalized interest.

Independence

- We are not aware of any relationships between O'Connor & Drew and the University that in our professional judgment may reasonably impact our independence.
- Related to our audit for 2017, we are independent with respect to the University within the meaning of the pronouncements of the Independence Standards Board, *Government Auditing Standards*, and under Rule 101 of the AICPA Code of Professional Conduct.

Required Communications - Continued

Significant Accounting Policies and Transactions – Continued

Audit Adjustments and Uncorrected Misstatements

- There were no audit differences recorded as a result of the audit that are required to be communicated to the Committee.
- There were no uncorrected misstatements that are required to be communicated to the Committee.

Required Communications - Continued

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

- Allowance for doubtful accounts
- Depreciable lives of capital assets
- Fringe benefits
- Net position classifications
- Net pension liability

OTHER COMMUNICATIONS

- Disagreements with management – None
- Consultation with other accountants/auditors:
 - Prior year auditors'
 - Auditors for the Massachusetts State Employees' Retirement Plan
- Major issues discussed with management prior to retention – None
- Difficulties encountered in performing the audit – None
- Significant written communications between the auditor and management:
 - Engagement letter
 - Management representation letter

Required Communications - Continued

MANAGEMENT ADVISORY SERVICES/TAX SERVICES

- No management advisory services were performed by O'Connor & Drew during 2017.
- O'Connor & Drew performed a Single Audit as required by the Uniform Administrative Requirements, Cost Principles, and Audit Requirements.
- O'Connor & Drew is performing the agreed-upon procedures enumerated in the "Massachusetts Office of Student Financial Assistance – Student Financial Assistance Attestation Guide"- At this time we do not anticipate any findings.

Financial Statement Fraud Risks

PERVASIVE RISK

- No pervasive financial statement fraud risks were identified.

SPECIFIC RISKS PRESUMED BY AUDITING STANDARDS

- Risk of misstatement relating to revenue recognition
- Risk of management override of controls
 - Journal entries and adjustments
 - Revenue recognition
 - Significant accounting estimates
 - Significant unusual transactions

UNIVERSITY'S SPECIFIC RISKS

- General economic factors affecting all entities

GASB Statement 75, *Financial Reporting for Postemployment Benefits Other Than Pensions*

- Effective for periods beginning after June 15, 2017 (next year's audit)
- Establishes standards for recognizing and measuring liabilities, deferral outflows/inflows and expense for postemployment benefits (“OPEB”)
- Calculation and financial reporting is similar to GASB 68 – Pensions
- An actuary will calculate the liability of the plan and the plan will be audited
- Implementation of GASB 75 will require a prior period adjustment to recognize the liability as of July 1, 2017

GASB Statement 87, *Leases*

- Effective for periods beginning after December 15, 2019
- A lease will be defined as a contract that conveys control of the right to use another entity's nonfinancial asset (e.g. building) for a period of time
- GASB 87 will require lessees to recognize on their balance sheet the rights as an asset and obligations as a liability
- Leases with terms of less than twelve months will not be required to be recognized on the balance sheet under GASB 87
- Currently, leases that meet the capital lease test in which the lessee has ownership rights are recognized on the balance sheet. Leases that do not meet the capital lease test are not recognized on the balance sheet but are terms are disclosed in the notes to the financial statement

REQUEST FOR TRUSTEE ACTION

Date: October 11, 2017
To: Board of Trustees
From: Karen P. House, vice president for finance and facilities
Subject: FY17 audited financial statements and audit reports of Federal programs
Requested Action: Discussion/Acceptance

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the following motion pertaining to the FY17 Salem State University audited financial statements and programs and related materials.

MOTION

The Board of Trustees of Salem State University hereby accepts the following audits and reports:

Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2017 and 2016

Independent Auditor's Reports as Required by the Uniform Guidance and Government Auditing Standards and Related Information, June 30, 2017

Further, the Board of Trustees delegates authority to accept the final financial statement package to Vice President Karen House, with the proviso that any significant changes from the draft statements, if any, be discussed first with the chair of the Risk Management and Audit committee.

Committee Assigned: Risk Management and Audit

Committee Action: Approved

Date of Action: October 11, 2017

Trustee Action:

Trustee Approval Date:

Effective Date:

Signed: _____

Title: Secretary of the Board of Trustees

Date: _____

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2017

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Financial Statements

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Salem State University
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts, the "Commonwealth") (the "University"), which comprise the statements of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, cash flows, combining statements of net position of major component units, combining statements of revenues and expenses of major component units for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We also audited the financial statements of Salem State University Foundation, Inc. (the "Foundation") and Salem State University Assistance Corporation (the "Assistance Corp.") as of June 30, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Salem State University as of June 30, 2017, and the changes in net position and cash flows, and combining statements of net position of major component units, combining statements of revenues and expenses of major component units for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Financial Statements as of June 30, 2016

The financial statements of Salem State University as of June 30, 2016 were audited by other auditors whose report dated November 16, 2016 expressed an unmodified opinion on those financial statements.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-21, the schedules of proportionate share of net pension liability on page 78, the schedules of contributions on page 79 and the notes to the required supplementary information on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2017 financial statements that collectively comprise the University's basic financial statements. The Schedules of Net Position-Dormitory Trust Fund Report and Schedules of Revenues, Expenses and Changes in Net Position-Dormitory Trust Fund Report on pages 81-82 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These reports are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 financial statements. The dormitory trust funds report information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE**, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University 's internal control over financial reporting and compliance.

**Certified Public Accountants
Braintree, Massachusetts**

DATE

Draft

SALEM STATE UNIVERSITY
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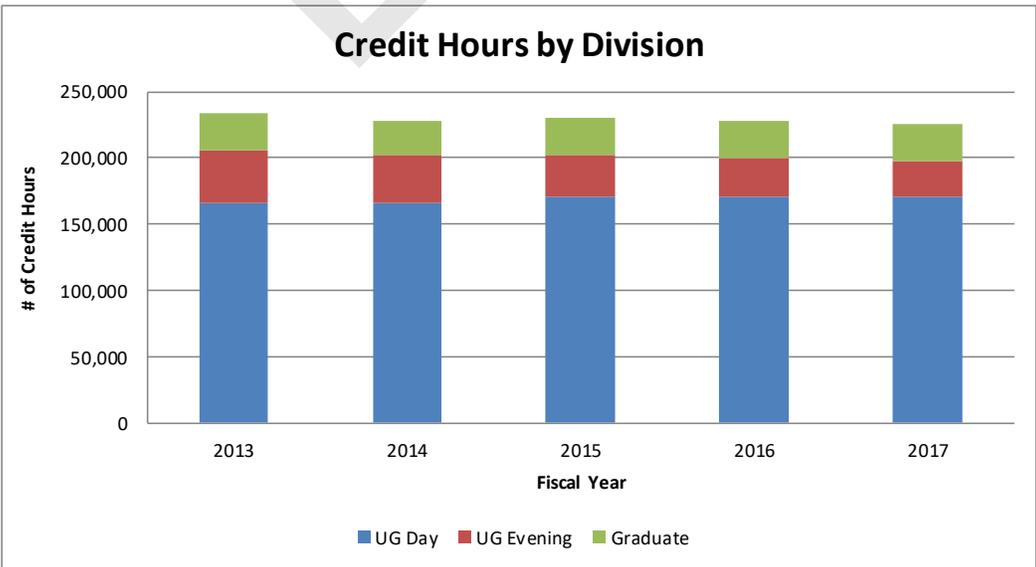
Management’s Discussion and Analysis
(Unaudited)

Introduction

Salem State University (the “University”) offers readers this narrative overview and analysis of the financial statements and activities of the University for fiscal years ended June 30, 2017 and 2016. Readers are encouraged to consider the information presented here in conjunction with the financial statements and related footnotes. In accordance with Governmental Accounting Standards Board (“GASB”) requirements, the University financial statements report the Salem State University Assistance Corporation (“Assistance Corporation”) and Salem State University Foundation, Inc. (“Foundation”) as component units.

Background

The University was founded in 1854 as the Salem Normal School, at which time it offered innovative, ground-breaking education for women pursuing careers in education. Today, the University thrives as a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The 115 acre University is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work & International Programs, Cat Cove and the O’Keefe Athletic Complex. The curriculum spans the arts, sciences and professional programs, contained within the College of Arts and Sciences, the Bertolon School of Business, the Maguire Meservey College of Health and Human Services, the School of Education, the School of Graduate Studies, and the School of Continuing and Professional Studies.. The undergraduate level has approximately 6,358 and the graduate level has approximately 878 Fall Full-Time Equivalent (“FTE”) credit enrollment. The total credit hours by division for the past five years has been fairly stable as shown below:



SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

University students are diverse, hailing from 28 states and 63 countries. Thirty-six percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2016). The approximate gender breakdown is 36% male and 64% female.

In support of the University, there are two component units. The Assistance Corporation, formed in 1995 by the legislature, promotes the orderly growth and development of the University. The Foundation, a separate 501(c)(3) corporation is the primary recipient of endowments, alumni funds and various other donations made to benefit the University.

The University's mission and vision statements provide direction in the quest to provide the best education possible for its diverse student body and are as follows:

University Mission

Salem State's mission is to provide a high quality, student-centered education that prepares a diverse community of learners to contribute responsibly and creatively to a global society, and serve as a resource to advance the region's cultural, social and economic development.

University Vision

Salem State University will be a premier teaching university that engages students in an inspiring transformational educational experience:

- We put students first in all that we do and are committed to their success;
- We are a community of learners where all faculty, staff and students have the opportunity to grow as individuals;
- We are innovators, offering a unique brand of public higher education that inspires students to reach higher and achieve more;
- We remain true to our heritage as a liberal arts university while we prepare students for today's workforce;
- We serve the communities of the North Shore while we create an ever more globally aware and culturally diverse campus environment;

The mission and vision statements guide decisions by University management on campus and help to create an environment of student success and inclusive excellence. Civic engagement and community service form a large part of the Salem State University culture. Thousands of volunteer hours and resources benefit various groups such as Citizens for Adequate Housing, Beverly Historical Society, LifeBridge Homeless Shelter Kitchen, American Cancer Society, Haven for Hunger, North Shore ARC, Operation Troop Support and Horizons for Homeless Children.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Accreditations

The University is accredited by the New England Association of Schools and Colleges ("NEASC") and the next comprehensive review will occur in Spring 2021. In addition, many of the University's programs are accredited by program-specific accrediting bodies.

Significant Events and Accomplishments

Comprehensive Capital Campaign

The 10,000 Reasons Campaign for Salem State University concluded on December 31, 2016 to great success with \$26.5 million raised against the goal of \$25 million. Forty-nine new scholarships have been created and funded by this campaign. Campaign priorities included Academic Programs, Faculty, Student Experience, Financial Assistance, Annual Support and Special Initiatives.

Leadership Change

Upon the conclusion of the comprehensive capital campaign, President Patricia Maguire Meservey announced her intention to retire in summer 2017. The Board of Trustees launched a nation-wide presidential search, which culminated in the appointment of John D. Keenan, JD, as the university's 14th president effective August 7, 2017.

Planning Initiatives

The university began a strategic planning effort during FY17, developed a first-ever multi-year financial plan, and undertook a North Campus Precinct study. These efforts will guide the new president and the university in the years ahead.

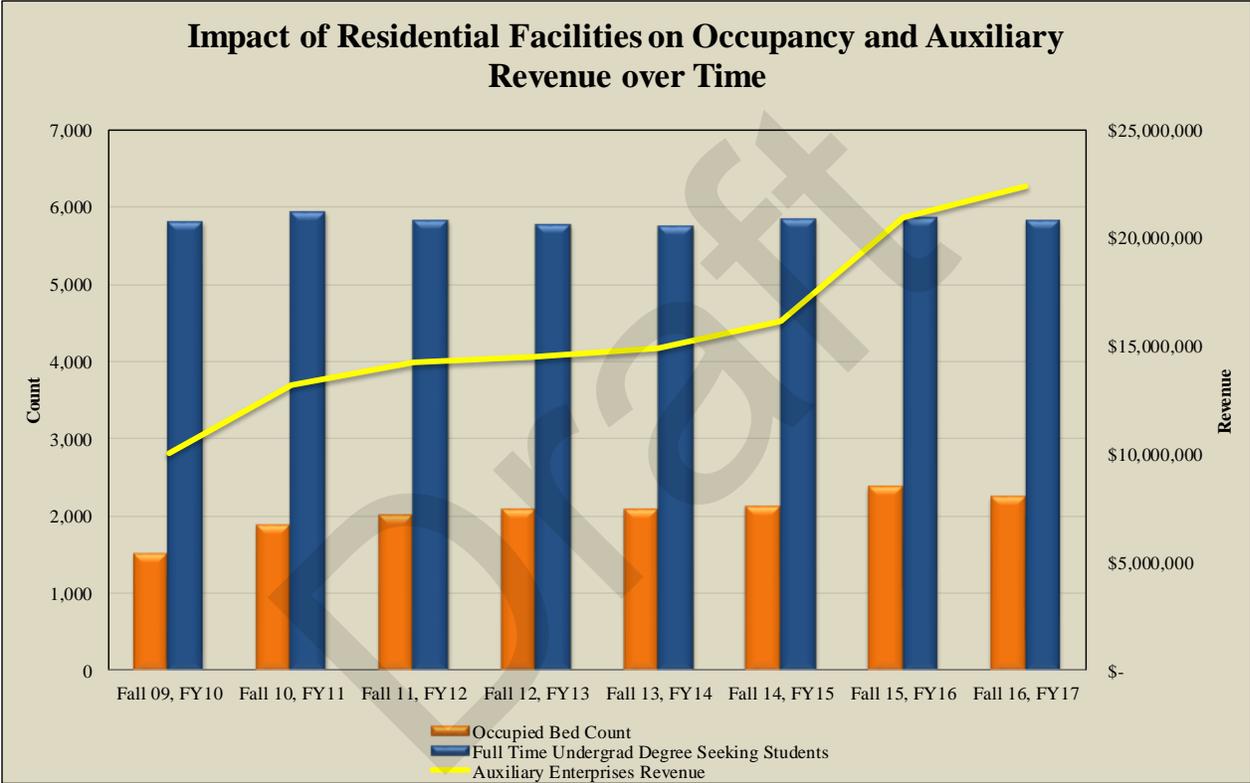
Focus on Inclusive Excellence

The university seeks to be an open, welcoming, and respectful community. In FY2017, a vice president was recruited and charged with leading efforts to create a university-wide diversity plan. She has begun to partner with members of the university and external communities on issues of diversity, inclusion, and social justice. This work is occurring under the Association of American Colleges & Universities' framework of Inclusive Excellence in support of access, student success, and high-quality learning. A Campus Climate survey was undertaken during FY2017.

SALEM STATE UNIVERSITY
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Management’s Discussion and Analysis - Continued
(Unaudited)

The University has intentionally grown its housing capacity to aid in enrollment management and student success, working toward a goal of housing 50% of undergraduate students on campus. The chart below shows the relationship between undergraduate student enrollment, residential hall occupancy, and auxiliary revenues over the last eight years.



SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Capital Projects

Sophia Gordon Center for Creative and Performing Arts

(Formerly known as the Main Stage Theatre Conversion Project)

During August 2014, construction commenced under the project management of the Division of Capital Asset Management and Maintenance (DCAMM) for the renovation of the Mainstage to become the Sophia Gordon Center for Creative and Performing Arts. Located on the North Campus, the project was completed during FY 2017 with a total cost of \$27.0 million. In April 2017, the state-of-the-art theatre held a grand opening with The Drowsy Chaperone, in a series of performances for the community, for donors, and for students, faculty, and staff. For the project, approximately \$13.3 million was funded by the University from the issuance of an MSCBA bond during January 2014, and additional cash funds of \$5.2 million was contributed by donors and the University in addition to capitalized interest of \$1.9 million recorded since FY 2015. DCAMM has funded \$6.6 million in capital grant funds as of June 30, 2017.

Clean Energy Investment Program (CEIP) - Phase III

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase III (the "project"). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, and HVAC upgrades. Work was completed on this project during FY 2017. The total project cost amounted to \$5.5 million, of which the University will be responsible for \$2.8 million in bond debt.

Property Acquisition – Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate acquisitions. The Assistance Corporation is the legal entity that holds title to certain properties on behalf of the University. A portion of these bond proceeds were used during June 2017 for property acquisitions on behalf of the Assistance Corporation. As the liability is held by the University and the asset is held by the Assistance Corporation, these transactions were accounted for as a contribution (non-operating expense) of the University in these financial statements and are reflected in the Assistance Corporation's financial statements as an offsetting revenue.

North Campus Precinct Study

In conjunction with the Massachusetts State College Building Authority, the university undertook a study of the north campus to ensure that future facilities projects there would best support the university's mission. A goal of the North Campus Precinct study is to determine how to facilitate the relocation and consolidation of academic programs currently housed on south campus onto north campus. In partnership with the City of Salem, the university hopes to re-site the elementary school program currently housed in and known as the Horace Mann Elementary School to the academic building on south campus while relocating university academic programs to the north campus. Individual projects to be completed under the auspices of the precinct study will undergo the usual review, study, funding, and authorization processes prior to their inception.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

GASB No. 68 - Accounting and Financial Reporting for Pensions

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, established standards for how governmental employers (and other entities) that contribute to state and local pension plans report liabilities and plan details on their financial statements. GASB 68 and its required disclosures were mandated to be implemented by the Commonwealth in its fiscal year 2015 financial reports. The table below shows the financial statement impact of GASB 68 in fiscal years 2017 and 2016:

	FY 2017	FY 2016
	<i>(In Thousands)</i>	
Statement of Net Position (Balance Sheet)		
Deferred Outflows (like an Asset)	\$ 19,627	\$ 19,078
Net pension liability (Non-Current Liability)	46,974	44,297
Deferred Inflows (like a Liability)	3,891	1,308
Net position	(31,238)	(26,527)
One-year Change	(4,711)	(4,368)
Statement of Revenues, Expenses & Changes in Net Position		
Pension Expense (allocated in Operating Expense Categories)*	\$ 4,711	\$ 4,368

* This pension expense amount is related solely to the GASB 68 adjustment

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Management's Discussion and Analysis - Continued
(Unaudited)

State Universities are required to record in their financial statements a proportionate amount of the State's net pension liability, recorded only on the Commonwealth's financial statements prior to FY2015. The recording of this pension liability on the financial statements of the University reduced the unrestricted net position as follows:

Unrestricted Net Position Effected by GASB 68			
<i>(In Thousands)</i>			
	Without Pension	Pension Adjustment	With Pension
Unrestricted Net Position at June 30, 2015	\$ 7,525	\$ (22,159)	\$ (14,634)
Unrestricted net increase (decrease) for FY 2016	2,213	(4,368)	(2,155)
Unrestricted Net Position at June 30, 2016	9,738	(26,527)	(16,789)
Unrestricted net increase (decrease) for FY 2017	(4,920)	(4,711)	(9,631)
Unrestricted Net Position at June 30, 2017	\$ 4,818	\$ (31,238)	\$ (26,420)

The total net pension liability balance in the June 30, 2017 and 2016 financial statements amounted to approximately \$47.0 million and \$44.3 million, respectively.

Overview of University Financial Statements

Salem State University reports its activity as a business-type activity under GASB using the economic resources measurement focus and full accrual basis of accounting. The University is an agency of the Commonwealth of Massachusetts. Therefore, the results of the University's operations and non-operating activities, its net position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements on an annual basis.

The financial statements, accompanying notes and supplemental information are presented separately from this discussion and analysis and will provide details not included in the below discussion.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Statement of Net Position Summary & Analysis

The Statement of Net Position presents information on the University's assets and deferred outflows of resources, less its liabilities and deferred inflows of resources, with the residual balance being reported as net position. The University's total net position for fiscal year 2017 declined by \$0.3 million or 0.3%. A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, 2016 and 2015 is as follows:

<u>Assets</u>	<i>(In Thousands)</i>		
	2017	2016	2015
Current Assets	\$ 39,909	\$ 46,113	\$ 56,729
Capital Assets (net)	172,648	163,705	155,388
Noncurrent Assets	3,956	3,815	3,936
Total Assets	216,513	213,633	216,053
Deferred Outflows of Resources	19,627	19,078	4,231
Total Assets and Deferred Outflows	\$ 236,140	\$ 232,711	\$ 220,284
<u>Liabilities</u>			
Current Liabilities	\$ 23,685	\$ 26,552	\$ 25,390
Noncurrent Liabilities	96,903	92,453	70,819
Total Liabilities	120,588	119,005	96,209
Deferred Inflows of Resources	4,888	2,726	5,170
<u>Net Position</u>			
Net investment in capital assets	131,099	122,165	128,378
Restricted	5,985	5,604	5,161
Unrestricted	(26,420)	(16,789)	(14,634)
Total Net Position	110,664	110,980	118,905
Total Liabilities, Deferred Inflows and Net Position	\$ 236,140	\$ 232,711	\$ 220,284

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Total assets increased in FY 2017 by \$2.9 million or 1% over the prior year compared with a 1% decrease of \$2.4 million in FY 2016. Most of the changes within the asset categories are associated with completion of capital projects from cash generated by bonds or long-term contractual agreements. Total liabilities increased in FY 2017 by \$1.6 million or 1% over prior year. This is due to a decrease in current liabilities primarily due to the timing of billing Fall 2017 student revenue. At June 30, 2017 unearned revenue decreased approximately \$4.4 million due to students being billed for the Fall 2017 semester after June 30, 2017. Whereas, in the prior year, students were billed before June 30, 2016 for that Fall 2016 semester. This decrease was offset by an increase in noncurrent liabilities due primarily to the net pension liability increase of \$2.7 million and a net increase in debt of \$1.7 million related to capital assets.

For fiscal 2017, 2016 and 2015, total net position amounted to \$110.7 million, \$111.0 million and \$118.9 million, respectively. The University's net position in the investment in capital assets (e.g. land, buildings and equipment) less any related debt used to acquire those assets is the largest component of the total net position, which is consistent with prior years and is detailed below in the next section. The University uses its capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as room rents, auxiliary and other fees, since the capital assets themselves cannot be used to satisfy these liabilities.

Capital Assets

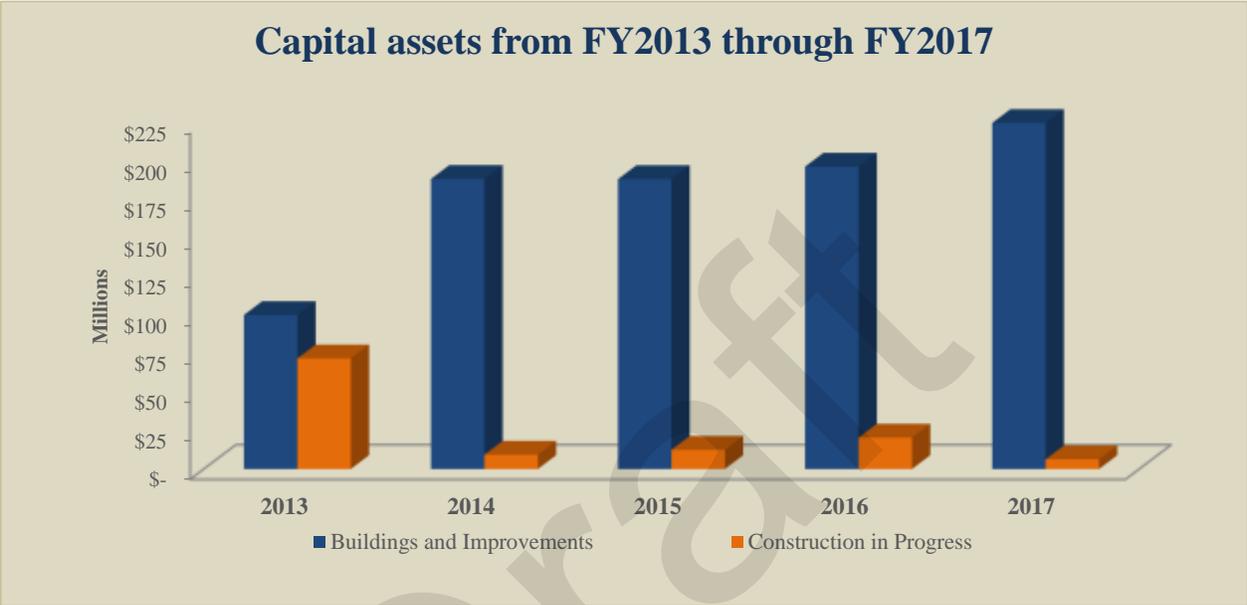
A summarized comparison of the University's capital assets categories at June 30, 2017, 2016 and 2015 is as follows:

Capital Asset Summary			
	<i>(In Thousands)</i>		
	2017	2016	2015
Building and improvements	\$ 227,079	\$ 196,564	\$ 188,503
Construction in Progress	6,372	20,361	12,456
Land	2,536	2,536	2,536
Furniture and Equipment	30,401	29,508	29,280
Total	<u>266,388</u>	<u>248,969</u>	<u>232,775</u>
Less: accumulated depreciation	<u>(93,740)</u>	<u>(85,264)</u>	<u>(77,387)</u>
Total capital assets, net	<u>\$ 172,648</u>	<u>\$ 163,705</u>	<u>\$ 155,388</u>

SALEM STATE UNIVERSITY
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Management’s Discussion and Analysis - Continued
(Unaudited)

The following graph shows the progression of capital project values over the last five years:



SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Capital Assets Changes

The University's total capital asset changes as of June 30, 2017, 2016 and 2015 are depicted below:

Changes in Capital Assets

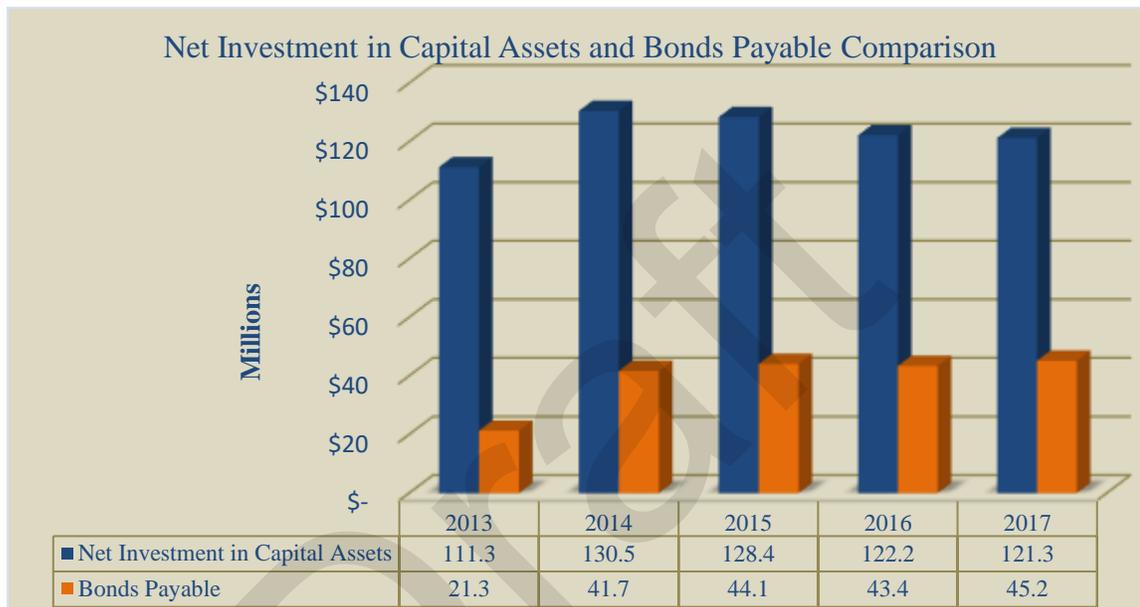
	(In Thousands)		
	2017	2016	2015
<u>Building and Land Improvements</u>			
Sophia Gordon Center	\$ 27,005	\$ -	\$ -
Meier Hall Renovation	-	321	1,244
Library and Learning Commons Improvements	272	521	1,005
Administration Building Renovation	1,736	-	-
Steam Pipe Repairs	366	-	-
Furniture and Equipment for Social Work and ESL	820	-	-
Student Navigation Center (MSCBA Bonds)	-	84	1,728
Starbucks Leasehold Improvement (Viking Hall)	-	514	-
Public Safety Relocation (MSCBA Bonds)	-	-	2,097
Canal Street Parking (MSCBA Bonds)	-	147	2,076
Equipment purchases for IT and Biology Departments	-	1,675	1,194
Comprehensive Energy Performance Contract Project	317	4,799	-
Additions to Buildings, Equipment & Infrastructure	<u>30,516</u>	<u>8,061</u>	<u>9,344</u>
Disposal of Old Library & Former Police Station	-	-	(8,269)
Net Additions to Buildings and Improvements	<u>30,516</u>	<u>8,061</u>	<u>1,075</u>
<u>Construction in Progress</u>			
Sophia Gordon Center Theatre	10,709	10,619	2,820
Various Ongoing Renovation Projects	1,161	2,073	5,500
Comprehensive Energy Performance Contract Project	3,920	1,208	1,208
IT Projects	1,178	774	1,135
Capitalized Bond Interest	<u>452</u>	<u>554</u>	<u>782</u>
Additions to Construction in Progress	17,420	15,228	11,445
Transfer of Construction in Progress to Capital Assets	<u>(31,410)</u>	<u>(7,323)</u>	<u>(8,242)</u>
Net Additions to Construction in Progress	<u>(13,990)</u>	<u>7,905</u>	<u>3,203</u>
<u>Furniture & Equipment</u>			
Equipment Purchases for IT & Art Design	642	228	-
Maintenance Equipment	<u>252</u>	<u>-</u>	<u>-</u>
Net Additions to Furniture and Equipment	<u>894</u>	<u>228</u>	<u>-</u>
Total Net Asset Additions	<u>17,420</u>	<u>16,194</u>	<u>4,278</u>
Depreciation Expense for the Year	8,477	7,877	7,655
Write Off of Old Library & Former Police Station	<u>-</u>	<u>-</u>	<u>(7,328)</u>
Net Accumulated Depreciation	<u>8,477</u>	<u>7,877</u>	<u>327</u>
Net Change in Capital Assets	<u>\$ 8,943</u>	<u>\$ 8,317</u>	<u>\$ 3,951</u>

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Net Investment in Capital Assets and Bonds Payable Comparison

The following graph displays long-term debt for Bond Payables and the Net Investment in Capital Assets balances for fiscal years ended 2013 through 2017:



It should be noted that the asset category “Capital assets, net” is not the same as the “Net Investment in Capital Assets” in the net position category. Net Investment in Capital Assets includes the same activity as the Capital Assets but also includes any related debt liabilities and deferred inflow of resources that are attributable to the acquisition, construction or improvement of those capital assets.

Statements of Revenues and Expenses and Changes in Net Position Summary & Analysis

The Statement of Revenues, Expenses and Changes in Net Position Analysis shows how the University’s net position changed during the last three fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. the accrual for compensated absences).

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

A summarized comparison of the University's operating and non-operating revenues and expenses and the resulting increase or decrease in net position at June 30, 2017, 2016 and 2015 is as follows:

Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis

	<i>(In Thousands)</i>		
	2017	2016	2015
<u>Operating Revenues</u>			
Tuition and Fees, Net	\$ 66,893	\$ 62,685	\$ 58,890
Federal, State, and Private Grants	19,306	18,820	19,782
Sales and Services	1,333	1,426	1,255
Auxiliary and Other	22,762	21,274	18,134
Total Operating Revenues	110,294	104,205	98,061
<u>Operating Expenses</u>			
Compensation and benefits	118,273	112,436	107,510
Supplies and services	37,511	35,957	32,934
Utilities	4,179	4,276	4,337
Depreciation	8,477	7,877	7,655
Scholarships	5,440	4,789	5,801
Change for GASB 68 pension activity	4,711	4,368	(473)
Total Operating Expense	178,591	169,703	157,764
<u>Non-Operating Revenues (Expenses)</u>			
State appropriations	58,768	56,416	54,442
Contribution to the Assistance Corporation	(897)	(911)	-
Gifts	1,801	2,665	1,784
Investment Income	1,755	(111)	592
Interest Expense	(1,157)	(1,269)	(985)
Total Non-Operating Revenues, Net	60,270	56,790	55,833
Capital Grants	7,711	783	846
Increase (Decrease) in Net Position	\$ (316)	\$ (7,925)	\$ (3,024)

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Highlights for Operating Revenues

The increase in total operating revenues of \$6.1 million (6%) for both fiscal years 2017 and 2016 over the prior year resulted primarily from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships improved by 7% in FY 2017 and 6% in FY 2016 (\$4.2 million in FY 2017 and \$3.8 million in FY 2016) over prior year due to increases in fee rates as well as new fees.

Federal, State and Private Grants: Federal, state and private grant revenues increased in FY 2017 by \$0.5 million (3%). This increase is primarily due to an increase in federal grants. State and private grants remained stable in 2017 compared to 2016. In 2016, grants decreased by \$0.8 million (5%) over 2015 primarily due to a decrease in state grant revenue.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues increased in FY 2017 by \$1.5 million (7%) over prior year primarily due to increases in dormitory room revenue of \$0.8 million and student fees for permits, meals and ancillary revenue of \$0.7 million. In FY 2016, auxiliary and other revenues increased \$3.1 million (17%) over the prior year and was primarily attributable to increased dormitory room revenue associated with the opening of Viking Hall (\$2.3 million). Other increases were from vendor and commission revenues of \$0.8 million over FY 2015.

Highlights for Operating Expenses

The increase in total operating expenses of \$9.2 million (5%) and \$11.9 million (8%) in FY 2017 and FY 2016, respectively, over prior year resulted primarily from the following changes:

Compensation and Benefits: Compensation and benefits increased during FY 2017 by \$5.8 million (5%) and FY 2016 by \$4.9 million (5%) over prior year. This is primarily due to contractual salary increases, including retroactive salary increases in FY 2016, and fringe benefit rate increases in both years.

Supplies and Services: The \$1.6 million (4%) increase in supplies and services during FY 2017 over prior year is primarily due to a \$1.2 million increase in the MSCBA assessment. MSCBA charges the University an assessment to cover the cost of financing residence hall and garage facilities on the university campus.

Utilities: In FY 2017, there was a slight decrease of \$97 thousand (2%) in utility costs over prior year due to a decreases in electricity and water and sewer costs.

Depreciation: The \$600 thousand (8%) increase in depreciation expense in FY 2017 over prior year is due to the increase in depreciable buildings and building improvements. Projects that were previously included in construction in progress have been completed and have begun to be depreciated in fiscal 2017. For similar reasons during FY 2016, depreciation increased \$222 thousand (3%) over the prior year.

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Management's Discussion and Analysis - Continued
(Unaudited)

Change for GASB 68 Pension Activity: The third year of adoption of GASB 68 resulted in pension expense of \$4.7 million in FY 2017 and was an increase of \$343 thousand over the prior year. This is due to changes in salaries and in the discount rate utilized in calculating the pension liability, as provided by the Comptroller's Office.

Highlights for Non-Operating Revenues (Expenses)

The increase in non-operating revenues (expenses) in FY 2017 of \$3.5 million (6%) and the decrease in FY 2016 of \$1.0 million (2%) resulted primarily from the following net changes:

State Appropriations: State appropriations increased by \$2.4 million (4%) and \$2.0 million (4%) in FY 2017 and FY 2016, respectively, over prior year primarily to support employee payroll and related fringe benefit costs. General Appropriation Act (GAA) funding increased by 1% or \$455 thousand for FY 2017; the majority of the appropriations increase was related to fringe benefits for the approximately half of the University's payroll that is funded by the state operating appropriation.

Contributions to the Assistance Corporation: Property was purchased amounting to \$896 thousand and \$911 thousand in FY 2017 and FY 2016, respectively for the Assistance Corporation with bond proceeds owed by the University.

Gifts: Gift revenue is a variable source. During FY 2017, gifts decreased over the prior year by \$864 thousand (32%). During FY 2016 a large gift for capital purposes did not recur.

Investment Income: Investment income increased by \$1.9 million in 2017 compared to a decrease of \$703 thousand in FY 2016 and is attributable to improved market conditions.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Statement of Cash Flows

The Statement of Cash Flows is reported on the direct method. The direct method portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and fees) and disbursements (e.g., cash paid to employees for services).

A summarized comparison of the University's cash flows and the resulting decrease in cash at June 30, 2017, 2016 and 2015 follows. *It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities since the State appropriations are intended and used to support operations.* According to accounting standards, on the Cash Flow Statement of the Financial Statements, the appropriations are presented as required in Non-Capital Financing Activities. This summary demonstrates that the reason for the decline in cash during FY 2016 and FY 2017 is the use of bond proceeds held to undertake and complete the construction projects previously discussed.

Summary of Cash Flows

	<i>(In Thousands)</i>		
	2017	2016	2015
Operating Activities	\$ 4,193	\$ 5,502	\$ (111)
Non Capital Financing Activities	(418)	941	389
Capital Financing Activities	(9,088)	(17,500)	(10,667)
Investing Activities	539	1,239	273
Net Decrease in Cash	\$ (4,774)	\$ (9,818)	\$ (10,116)

Highlights for Cash Flows

The overall decrease in cash and cash equivalents for FY 2017 amounted to approximately \$4.8 million and is primarily associated with the payment of construction projects (i.e. Sophia Gordon Center for Creative and Performing Arts) and the repayment of bond principal and related interest costs partially offset by proceeds from bonds associated with new capital assets acquisitions. The bond for the Sophia Gordon Center was originally issued in FY 2014.

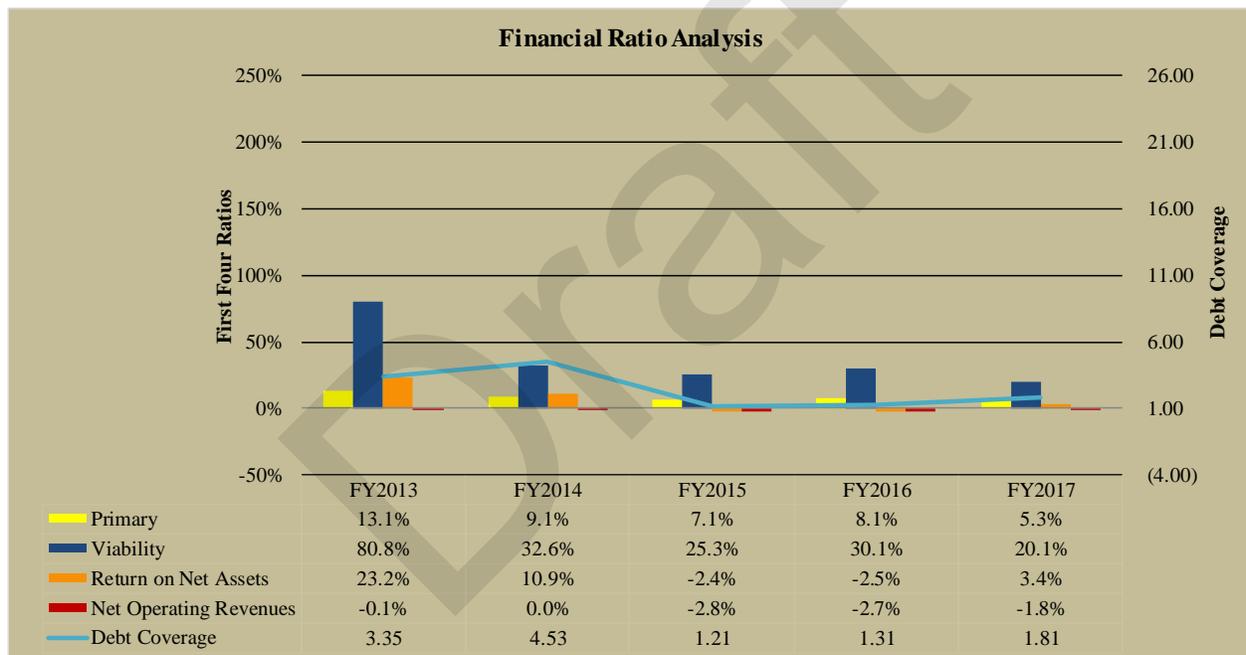
The overall decrease in cash and cash equivalents for FY 2016 and FY 2015 amounted to approximately \$9.8 million and \$10.1 million, respectively, is primarily associated with the purchase of capital assets and related bond activity.

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Management's Discussion and Analysis - Continued
(Unaudited)

Ratio Analysis

Ratio analysis is a management tool which indicates the University's effective use of its resources, its overall financial viability, its direction in achieving institutional strategic goals, and its ability to meet short and long-term obligations in a managed fashion. Ratios are also useful in analyzing trends of an institution over time. A one-year fluctuation in a ratio may be indicative of an aberration for that year or may indicate a relevant trend. The ratios presented here are calculated without the inclusion of the University's component units and without factoring in the effect of the implementation of GASB 68.



Comments on Ratio Trends

Primary

This ratio provides a snapshot of the University's financial strength and flexibility by indicating how long it may be able to operate using expendable reserves without relying on additional new assets generated by operation.

Viability

This ratio measures a university's management of resources, including debt, and the availability of expendable net assets (cash and other liquid assets) to pay off long-term debt.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued
(Unaudited)

Return on Net Assets

This ratio measures asset performance and management. By measuring total economic return, this ratio indicates whether a university's resources are growing, and if the university is better off financially than in previous years.

Debt Service Coverage

This ratio measures actual margin of protection for annual debt service payments from annual operations. The higher the number, the better able the institution can cover its debt obligations.

Looking Ahead to FY18

The university has a newly appointed President and there is great energy to continue moving forward. The university is working to secure funding for a science teaching lab addition to best educate students, in part to address the region and Commonwealth's workforce needs. With the expected completion of the Strategic Plan and receipt of the results of the Campus Climate study, the university's continuous improvement efforts are expected to continue the progression and contribute to future financial vitality.

Requests for Further Information

This financial report is designed to provide a general overview of Salem State University's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President for Finance and Facilities/CFO, 352 Lafayette Street, Salem, Massachusetts 01970-5353.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)
Statements of Net Position
June 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Current Assets:				
Cash and cash equivalents	\$ 14,010,653	\$ 9,032,545	\$ 1,840,935	\$ 1,189,849
Restricted cash and cash equivalents	2,930,861	7,624,447	861,762	308,059
Deposits held by State Treasurer	1,751,316	2,333,595	-	-
Cash held by State Treasurer	969,059	781,242	-	-
Deposits held by MSCBA and DCAMM	792,862	5,456,628	-	-
Investments	12,867,542	11,760,256	-	-
Accounts, grants and other receivable, net	5,958,760	8,823,080	16,158	26,562
Pledges receivable, net	-	-	1,303,299	1,844,881
Note receivable	-	-	40,000	51,111
Loans receivable	221,611	264,430	-	-
Other current assets	406,681	37,166	2,407	26,998
Total Current Assets	39,909,345	46,113,389	4,064,561	3,447,460
Non-Current Assets:				
Investments	676,501	599,771	29,486,822	26,559,559
Loans receivable, net of current portion	1,806,097	1,741,372	-	-
Pledges receivable, net	-	-	4,174,556	1,521,280
Note receivable, net of current portion	-	-	206,667	246,667
Capital assets, net	172,648,089	163,704,987	11,755,930	11,043,297
Debt service reserve	1,473,340	1,473,340	-	-
Total Non-Current Assets	176,604,027	167,519,470	45,623,975	39,370,803
Total Assets	216,513,372	213,632,859	49,688,536	42,818,263
Deferred Outflow of Resources:				
Deferred outflows for pensions	19,626,524	19,078,090	-	-
Total Deferred Outflows of Resources	19,626,524	19,078,090	-	-
Total Assets and Deferred Outflows of Resources	\$ 236,139,896	\$ 232,710,949	\$ 49,688,536	\$ 42,818,263

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Current Liabilities:				
Accounts payable and accrued expenses	\$ 4,035,476	\$ 3,401,781	\$ 340,824	\$ 349,502
Accrued payroll	7,711,373	7,294,496	-	-
Accrued compensated absences	6,120,020	6,029,533	-	-
Accrued workers' compensation	222,168	202,631	-	-
Unearned revenues	3,143,250	7,427,804	-	39,000
Note payable	81,546	73,887	70,135	86,424
Bonds payable	2,071,341	1,865,148	350,010	333,838
Deposits	299,677	256,620	-	-
Total Current Liabilities	23,684,851	26,551,900	760,969	808,764
Non-Current Liabilities:				
Accrued compensated absences	3,640,196	3,528,230	-	-
Accrued workers' compensation	955,150	755,451	-	-
Notes payable, net of current portion	12,698	88,032	1,352,031	1,421,433
Bond payable, net of current portion	43,131,082	41,524,732	1,297,681	1,802,562
Loans payable - Federal financial assistance programs	2,190,173	2,259,532	-	-
Net pension liability	46,973,396	44,297,126	-	-
Other non-current liabilities	-	-	26,953	34,078
Total Non-Current Liabilities	96,902,695	92,453,103	2,676,665	3,258,073
Total Liabilities	120,587,546	119,005,003	3,437,634	4,066,837
Deferred Inflows of Resources:				
Service concession arrangements	997,902	1,309,021	-	-
Deferred gain on bond refunding	-	109,970	-	-
Deferred inflows for pensions	3,890,105	1,306,921	-	-
Total Deferred Inflows of Resources	4,888,007	2,725,912	-	-
Net Position:				
Net investment in capital assets	131,099,107	122,164,882	8,686,073	7,399,040
Restricted:				
Nonexpendable	810,323	732,690	23,048,262	19,058,482
Expendable	5,174,752	4,871,719	12,580,873	11,033,273
Unrestricted	(26,419,839)	(16,789,257)	1,935,694	1,260,631
Total Net Position	110,664,343	110,980,034	46,250,902	38,751,426
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 236,139,896	\$ 232,710,949	\$ 49,688,536	\$ 42,818,263

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses
For the Years Ended June 30, 2017 and 2016

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Operating Revenues:				
Tuition and fees	\$ 84,587,147	\$ 79,474,916	\$ -	\$ -
Less: scholarships and fellowships	(17,694,347)	(16,790,060)	-	-
Net tuition and fees	66,892,800	62,684,856	-	-
Federal grants and contracts	14,101,909	13,642,619	-	-
State grants and contracts	4,861,321	4,878,842	-	-
Private grants and contracts	342,932	298,808	-	-
Gifts and contributions	-	-	6,088,753	2,554,399
Sales and services of educational departments	1,333,282	1,426,136	-	-
Auxiliary enterprises	22,398,146	20,976,201	860,594	1,468,387
Other operating revenues	364,117	297,565	116,443	199,219
Total Operating Revenues	110,294,507	104,205,027	7,065,790	4,222,005
Operating Expenses:				
Educational and general:				
Instruction	64,462,316	62,105,259	-	-
Public service	1,755,239	1,640,439	1,888,100	1,663,933
Academic support	16,898,704	15,796,526	-	-
Student services	19,222,838	19,277,618	-	-
Institutional support	27,765,194	25,968,389	335,854	1,360,763
Operation and maintenance of plant	15,599,380	14,129,763	-	-
Scholarships	5,626,549	4,788,910	445,941	380,449
Depreciation	8,476,817	7,876,670	165,798	169,365
Auxiliary enterprises	18,784,153	18,060,244	1,452,665	1,150,288
Total Operating Expenses	178,591,190	169,643,818	4,288,358	4,724,798
Net Operating Income (Loss)	(68,296,683)	(65,438,791)	2,777,432	(502,793)
Non-Operating Revenues (Expenses):				
State appropriations, net	58,767,638	56,416,180	1,194,450	1,249,979
Contribution to the Assistance Corporation	(896,488)	(910,824)	896,488	910,824
Gifts	1,800,982	2,665,232	-	-
Investment income	1,755,476	(169,963)	2,757,774	(258,049)
Other non-operating revenue	-	-	3,600	3,600
Interest expense	(1,157,237)	(1,269,370)	(130,268)	(151,319)
Net Non-Operating Revenues	60,270,371	56,731,255	4,722,044	1,755,035
Increase (Decrease) in Net Position Before Capital Grants	(8,026,312)	(8,707,536)	7,499,476	1,252,242
Capital grants	7,710,621	782,865	-	-
Total Increase (Decrease) in Net Position	\$ (315,691)	\$ (7,924,671)	\$ 7,499,476	\$ 1,252,242

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	University				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at June 30, 2015	\$ 128,377,738	\$ 739,323	\$ 4,421,649	\$ (14,634,005)	\$ 118,904,705
Changes in net position for 2016	(6,212,856)	(6,633)	450,070	(2,155,252)	(7,924,671)
Balance, June 30, 2016	122,164,882	732,690	4,871,719	(16,789,257)	110,980,034
Changes in net position for 2017	8,934,225	77,633	303,033	(9,630,582)	(315,691)
Balance, June 30, 2017	\$ 131,099,107	\$ 810,323	\$ 5,174,752	\$ (26,419,839)	\$ 110,664,343

	Component Units				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at June 30, 2015	\$ 6,045,737	\$ 18,481,983	\$ 12,996,408	\$ 885,880	\$ 38,410,008
Changes in net position for 2016	1,353,303	576,499	(1,963,135)	374,751	341,418
Balance, June 30, 2016	7,399,040	19,058,482	11,033,273	1,260,631	38,751,426
Changes in net position for 2017	1,287,033	3,989,780	1,547,600	675,063	7,499,476
Balance, June 30, 2017	\$ 8,686,073	\$ 23,048,262	\$ 12,580,873	\$ 1,935,694	\$ 46,250,902

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	Primary Government	
	2017 University	2016 University
Cash Flows from Operating Activities:		
Tuition and fees	\$ 66,908,026	\$ 61,098,611
Grants and contracts	19,403,996	19,710,059
Payments to suppliers and vendors	(41,637,267)	(40,252,712)
Payments to employees	(91,278,270)	(88,898,871)
Payments for benefits	(11,390,707)	(9,691,870)
Payments to students	(5,626,549)	(4,788,910)
Loans issued to students	(443,455)	(209,871)
Collection of loans to students	410,001	376,083
Auxiliary enterprises receipts	20,931,923	21,988,607
Sales and services of educational departments	1,552,996	1,463,111
Other	426,508	163,411
Net Cash Used in Operating Activities	<u>(40,742,798)</u>	<u>(39,042,352)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	44,935,945	44,543,834
Tuition remitted to State	(934,234)	(905,670)
Student interest received (paid)	(56,355)	(1,764)
Contributions to the Assistance Corporation	(896,488)	(910,824)
Gifts	1,468,970	2,758,963
Net Cash Provided by Non-Capital Financing Activities	<u>44,517,838</u>	<u>45,484,539</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(9,141,741)	(14,855,786)
Principal paid on bonds payable and notes payable	(1,776,053)	(1,679,263)
Interest paid on bonds payable	(1,965,733)	(1,987,751)
Proceeds from bond financing	3,795,907	1,090,000
Debt service reserve funding	-	(66,505)
Net Cash Used in Capital Financing Activities	<u>(9,087,620)</u>	<u>(17,499,305)</u>
Cash Flows from Investing Activities:		
Investment income	410,114	457,197
Proceeds from sale of investments	6,132,241	4,456,576
Purchase of investments	(6,003,481)	(3,675,102)
Net Cash Provided by Investing Activities	<u>538,874</u>	<u>1,238,671</u>
Net Decrease in Cash and Equivalents	(4,773,706)	(9,818,447)
Cash and Cash Equivalents, Beginning of the Year	<u>25,228,457</u>	<u>35,046,904</u>
Cash and Cash Equivalents, End of the Year	\$ 20,454,751	\$ 25,228,457

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30, 2017 and 2016

	Primary Government	
	2017 University	2016 University
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (68,296,683)	\$ (65,438,791)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	8,476,817	7,876,670
Bad debts	446,812	237,522
Fringe benefits provided by State	14,765,927	12,778,016
Changes in assets and liabilities:		
Accounts receivable	2,611,309	(859,740)
Accounts payable and accrued liabilities	489,678	331,537
Accrued payroll and benefits	838,565	1,067,693
Other assets	(369,514)	70,090
Loans to/from students	(21,905)	182,799
Deposits	43,057	(886,706)
Unearned revenues	(4,016,794)	481,042
Deferred inflows	2,162,097	(2,443,749)
Deferred outflows	(548,434)	(14,846,829)
Net pension activity	2,676,270	22,408,094
Net Cash Used in Operating Activities	<u>\$ (40,742,798)</u>	<u>\$ (39,042,352)</u>

Cash Flow Information

	Primary Government	
	2017 University	2016 University
For purposes of the statement of cash flows, cash and equivalents are comprised of the following at June 30:		
Cash and equivalents	14,010,653	9,032,545
Deposits held by State Treasurer	1,751,316	2,333,595
Cash held by State Treasurer	969,059	781,242
Deposits held by MSCBA and DCAMM	792,862	5,456,628
Restricted cash and equivalents	2,930,861	7,624,447
	<u>\$ 20,454,751</u>	<u>\$ 25,228,457</u>

Schedule of noncash investing and financing activities

	Primary Government	
	2017 University	2016 University
Acquisition of capital assets	\$ 17,419,919	\$ 16,193,497
Accounts payable beginning of year	-	-
Accounts payable end of year	(115,077)	-
Payments made by DCAMM	(7,710,621)	(782,865)
Interest capitalized in CIP	(452,480)	(554,846)
Cash payments for capital assets	<u>\$ 9,141,741</u>	<u>\$ 14,855,786</u>
Unrealized gain (loss) on marketable securities	<u>\$ 737,752</u>	<u>\$ (486,942)</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 14,765,927</u>	<u>\$ 12,778,016</u>

See accompanying notes to financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Combining Statements of Net Position of Major Component Units

June 30, 2017 and 2016

	<u>Assets</u>					
	2017			2016		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Current Assets:						
Cash and cash equivalents	\$ 1,412,112	\$ 428,823	\$ 1,840,935	\$ 804,044	\$ 385,805	\$ 1,189,849
Restricted cash and cash equivalents	861,762	-	861,762	308,059	-	308,059
Accounts, grants and other receivable, net	-	16,158	16,158	-	26,562	26,562
Pledges receivable, net	1,303,299	-	1,303,299	1,844,881	-	1,844,881
Note receivable	40,000	-	40,000	51,111	-	51,111
Other current assets	2,407	-	2,407	26,998	-	26,998
Total Current Assets	3,619,580	444,981	4,064,561	3,035,093	412,367	3,447,460
Non-Current Assets:						
Investments securities	29,486,822	-	29,486,822	26,559,559	-	26,559,559
Pledges receivable, net of current portion	4,174,556	-	4,174,556	1,521,280	-	1,521,280
Note receivables, net of current portion	206,667	-	206,667	246,667	-	246,667
Capital assets, net	-	11,755,930	11,755,930	-	11,043,297	11,043,297
Total Non-Current Assets	33,868,045	11,755,930	45,623,975	28,327,506	11,043,297	39,370,803
Total Assets	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536	\$ 31,362,599	\$ 11,455,664	\$ 42,818,263
	<u>Liabilities and Net Position</u>					
Current Liabilities:						
Accounts payable and accrued expenses	\$ 298,981	\$ 41,843	\$ 340,824	\$ 311,587	\$ 37,915	\$ 349,502
Unearned revenues	-	-	-	39,000	-	39,000
Note payable	-	70,135	70,135	-	86,424	86,424
Bond payable	-	350,010	350,010	-	333,838	333,838
Total Current Liabilities	298,981	461,988	760,969	350,587	458,177	808,764
Non-Current Liabilities:						
Note payable, net of current portion	-	1,352,031	1,352,031	-	1,421,433	1,421,433
Bond payable, net of current portion	-	1,297,681	1,297,681	-	1,802,562	1,802,562
Other non-current liabilities	-	26,953	26,953	-	34,078	34,078
Total-Non Current Liabilities	-	2,676,665	2,676,665	-	3,258,073	3,258,073
Total Liabilities	298,981	3,138,653	3,437,634	350,587	3,716,250	4,066,837
Net Position:						
Net investment in capital assets	-	8,686,073	8,686,073	-	7,399,040	7,399,040
Restricted:						
Nonexpendable	23,048,262	-	23,048,262	19,058,482	-	19,058,482
Expendable	12,580,873	-	12,580,873	11,033,273	-	11,033,273
Unrestricted	1,559,509	376,185	1,935,694	920,257	340,374	1,260,631
Total Net Position	37,188,644	9,062,258	46,250,902	31,012,012	7,739,414	38,751,426
Total Liabilities and Net Position	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536	\$ 31,362,599	\$ 11,455,664	\$ 42,818,263

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Combining Statements of Revenues and Expenses
of Major Component Units**

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Operating Revenues:						
Gifts and contributions	\$ 6,088,753	\$ -	\$ 6,088,753	\$ 2,554,399	\$ -	\$ 2,554,399
Auxiliary enterprises	-	860,594	860,594	-	557,563	557,563
Other operating revenues	-	116,443	116,443	-	199,219	199,219
Total Operating Revenues	6,088,753	977,037	7,065,790	2,554,399	756,782	3,311,181
Operating Expenses:						
Educational and general:						
Public service	1,888,100	-	1,888,100	1,663,933	-	1,663,933
Institutional support	335,854	-	335,854	1,360,763	-	1,360,763
Scholarships	445,941	-	445,941	380,449	-	380,449
Depreciation and amortization	-	165,798	165,798	-	169,365	169,365
Auxiliary enterprises	-	1,452,665	1,452,665	-	1,150,288	1,150,288
Total Operating Expenses	2,669,895	1,618,463	4,288,358	3,405,145	1,319,653	4,724,798
Net Operating Income	3,418,858	(641,426)	2,777,432	(850,746)	(562,871)	(1,413,617)
Non-Operating Revenues (Expenses):						
State appropriations, net	-	1,194,450	1,194,450	-	1,249,979	1,249,979
Contribution to the Assisance Corporation		896,488	896,488		910,824	910,824
Investment income	2,757,774	-	2,757,774	(258,049)	-	(258,049)
Other non-operating revenue	-	3,600	3,600	-	3,600	3,600
Interest expense	-	(130,268)	(130,268)	-	(151,319)	(151,319)
Net Non-Operating Revenues	2,757,774	1,964,270	4,722,044	(258,049)	2,013,084	1,755,035
Total Increase (Decrease) in Net Position	6,176,632	1,322,844	7,499,476	(1,108,795)	1,450,213	341,418
Net Position, Beginning of Year	31,012,012	7,739,414	38,751,426	32,120,807	6,289,201	38,410,008
Net Position, End of Year	\$ 37,188,644	\$ 9,062,258	\$ 46,250,902	\$ 31,012,012	\$ 7,739,414	\$ 38,751,426

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies**

Organization

Salem State University (the “University”) is a public, State-supported, comprehensive four-year university, located in Salem, Massachusetts, and governed by a local Board of Trustees under the direction of the Massachusetts Department of Higher Education. The University is empowered to award baccalaureate and master’s degrees in education, business and arts and sciences, as well as conduct programs of continuing education. The University is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting

The University is an agency of the Commonwealth of Massachusetts (the “State” or the “Commonwealth”). The accompanying financial statements reflect only the transactions of the University and its discretely presented component units. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the University had been operated independently of the State.

The following discretely presented component units have been aggregated into a single combined column:

The Salem State University Foundation, Inc. (the “Foundation”) was formed in 1977 to render financial assistance and support to the educational programs and development of the University. The Foundation is legally separate from the University, and the University is not financially accountable for the Foundation. The Foundation has been included because of the nature and significance of its relationship with the University. Complete financial statements can be obtained from the Foundation’s administrative offices in Salem, Massachusetts.

In 1995, Salem State University Assistance Corporation (the “Assistance Corporation”) was formed as a result of legislation established by the Commonwealth of Massachusetts. The Assistance Corporation was created to promote the orderly growth and development of the University and to assist the University in securing physical and financial resources necessary for the acquisition and development of a site formerly known as the GTE Sylvania plant. In June 2012, legislation was approved further defining the parameters of this “site” to include other such properties determined by the Assistance Corporation to fulfill its mission.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - continued

The Assistance Corporation owns and operates commercial rental properties at this site in Salem, Massachusetts and is legally separate from the University, and the University is not financially accountable for the Assistance Corporation. The Assistance Corporation has been included because of the nature and significance of its relationship with the University. Complete financial statements can be obtained from the Assistance Corporation's administrative offices in Salem, Massachusetts.

During the years ended June 30, 2017 and 2016, the Foundation distributed scholarships in the amount of \$445,941 and \$380,449, respectively, directly to students of the University. Complete financial statements for the Foundation and the Assistance Corporation can be obtained from the Office of the Vice President for Finance and Business, Salem State University, 352 Lafayette Street, Salem, MA 01970.

The University has determined that it functions as a business-type activity, as defined by the Governmental Accounting Standards Board ("GASB"). The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements and required supplementary information. The University presents statements of net position, revenues and expenses, changes in net position and cash flows on a combined University-wide basis.

The University's financial statements have been prepared using the "economic resources measurement focus" and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Salem State University Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board ("FASB") guidance on financial reporting for Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than the reclassification of certain items, no modifications have been made to the Foundation's financial information in the University's financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - continued

The University's policy for defining operating activities in the statements of revenues and expenses are those that generally result from exchange transactions such as the payment received for services and payment made for the purchases of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts and interest expense.

The accompanying statements of revenues and expenses demonstrate the degree to which the direct expenses of a given function are offset by programs revenues. Direct expenses are those that are charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

In accordance with the requirements of the Commonwealth of Massachusetts, the University's operations are accounted for in several trust funds. All of those trust funds have been consolidated and are included in these financial statements.

Net Position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three net position categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.

Restricted:

Nonexpendable - Component of net position whose net assets are subject to externally-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Expendable - Component of net position whose use by the University is subject to externally-imposed stipulations that can be fulfilled by the actions of the University pursuant to those stipulations or that expire by the passage of time.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - continued

Unrestricted: All other categories of net position. Unrestricted net assets may be designed for specific purposes by action of management or the Board of Trustees.

When both restricted and unrestricted resources are available for use, it is the University's policy to use the restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents and Deposits

The University's cash and cash equivalents are considered cash on hand, cash deposits held with the Commonwealth's State Treasurer and Receiver-General, Massachusetts State College Building Authority ("MSCBA") and the Division of Capital Asset Management and Maintenance ("DCAMM"), which are short-term, highly liquid investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable are stated at the amount the University expects to collect from outstanding balances. Provisions for losses on accounts receivables are determined on the basis of loss experience, known and inherent risks in the loan and receivable portfolio, the estimated value of underlying collateral and current economic conditions.

Pledges Receivable - Foundation

Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected or paid in future years are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received or paid. Amortization of the discounts is included in contribution revenue or expenses. Conditional promises to give are not included in support or expenses until the conditions are substantially met.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Investments

Investments held with the Commonwealth's State Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust ("MMDT") are reported at amortized cost. The MMDT is an investment pool for political subdivisions in the Commonwealth that was designed as a legal means to safely invest temporarily available cash. Its primary purpose is to provide a safe, liquid, high-yield investment vehicle offering participation in a diversified portfolio of high quality money market instruments. The MMDT, an instrumentality of the State Treasurer, is not a bank, savings institution or financial institution, and is not subject to FDIC insurance. MMDT operates as a qualifying external investment pool and is valued by MMDT's management on an amortized cost where the net asset value is \$1 per share.

Investments include marketable debt and equity securities which are carried at their readily determinable fair values. Realized and unrealized gains and losses are included in non-operating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

Dividends, interest and net gains or losses on investments are reported in the Statement of Revenues and Expenses. Any net earnings not expended are included in net position categories as follows:

- i. as increases in restricted - nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- ii. as increases in restricted - expendable net position if the terms of the gift or the University's interpretation of relevant state law impose restrictions on the current use of income or net gains. The University has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should be classified as restricted - expendable; and,
- iii. as increases in unrestricted net position in all other cases.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Investments - continued

Massachusetts General Law, Chapter 15, grants authority to the University Boards of Trustees to administer the general business of the University. Inherent in this authority is the authority to invest the funds of the University. Chapter 15 further grants the Trustees the authority to delegate to the President any said powers or responsibilities. The Board of Trustees of Salem State University has delegated the authority to make specific investment decisions to the President of the University and the Finance Committee of the Board of Trustees. The University's investments consist of debt, marketable equity securities, mutual funds and other investments which are carried at their fair values. The primary cash equivalent funds are within the MMDT, the external investment pool for political subdivisions of the Commonwealth.

The Foundation's investments consist of debt, marketable equity securities, mutual funds and other investments which are carried at their fair value. Unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net position, unless a donor or law temporarily (expendable) or permanently (non-expendable) restricts their use. Gains and losses on the disposition of investments are principally determined based on the first-in, first-out method or specific identification of securities sold. Investment income is recognized when earned. Dividends are recorded on the ex-dividend date.

Loans Receivable and Payable

Loans receivable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Student Loan Program ("NSL"). The federal government provides the majority of the funds to support these programs. Loan payments received from students made under the Perkins and NSL loan programs provided by the federal government is refundable to the federal government upon ending (liquidation) of the University's participation in the programs. The amount due to the federal government upon liquidation is included as a noncurrent liability in the accompanying financial statements.

The prescribed practices for the Perkins and NSL programs do not provide for accrual of interest on student loans receivable or for the provision of an allowance for doubtful loans. Accordingly, interest on loans is recorded as received and loan balances are reduced subsequent to the determination of their uncollectability and have been accepted (assigned) by the Department of Education and the Department of Health and Human Services. Management closely monitors outstanding balances and assigns loans to the Department of Education based upon such factors as student payment history, current status of applicable students, and the results of collection efforts.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Capital Assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, construction in process, buildings, building and land improvements and furniture and equipment, are reported in the statement of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial individual cost of more than \$50,000 in accordance with the Commonwealth's capitalization policy.

The University does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets, with the exception of land, are depreciated using the straight-line method over estimated useful lives which range from 3 to 40 years.

The land on which the residence halls stand is leased by the MSCBA from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms and can be extended at the end of these terms for additional 10-year periods each.

The University, in accordance with a management and services agreement between the MSCBA and the Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. The revenue assessment amounts are included in the residential life auxiliary enterprises in the accompanying statements of revenue and expenses. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

The Assistance Corporation does not maintain a formal capitalization policy. However, purchases of property and equipment exceeding \$200 are generally deemed capitalizable. Purchased property and equipment is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Contributions - Foundation

In-kind rent and services contributed are recorded as contributions in revenues and other support at their fair market values on the date of receipt. The related expenses or assets are also recorded depending on the form of benefits received.

Deposits Held by Other State Agencies

Funds held by the MSCBA and the DCAMM are primarily for ongoing construction projects and are from bond proceeds and University sources.

Pensions

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System plan ("SERS") and the additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fringe Benefits

The University participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, and pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the University. Workers' compensation costs are assessed separately based on the University's actual experience.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30th each year. Compensated sick leave represents 20% of amounts earned by those employees with ten or more years of state service at the end of each year. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Deposits and Unearned Revenues

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred. Funds received in advance from various grants and contracts are deferred. Deposits and unearned revenues are recorded as revenue when earned.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

Student Fees

Student tuition and other fees are presented net of scholarships and fellowships applied to students' accounts. Other scholarships or financial aid in excess of tuition and fees are generally reflected as expenses.

Interest Costs and Capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2017 and 2016, total interest costs incurred were approximately \$1,684,000 and \$1,825,000, respectively. During 2017 and 2016, total interest costs capitalized were approximately \$453,000 and \$555,000, respectively.

Tax Status

The University is an agency of the Commonwealth of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, net position classification, and determining the net pension liability.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements

GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures.

GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 19, management anticipates this standard will require the restatement of balances as of July 1, 2017.

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this Statement and its applicability.

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of net position and a statement of changes in net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements - continued

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this Statement and its applicability.

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Statement. Management is in the process of evaluating this Statement and has not yet determined its impact on the financial statements.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Note 2 - **Cash and Cash Equivalents and Deposits**

The carrying amounts of the University's cash and cash equivalents and deposits, net of amounts in transit at June 30, 2017 and 2016 were \$16,941,514 and \$16,656,992 respectively. This includes amounts held in deposit at MMDT of \$11,672,504 and \$11,975,615, as of June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, the University had deposits of \$5,026,475 and \$5,016,890, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Cash Equivalents and Deposits - Continued**

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. The occurrence of such an event would limit the University's recovery of funds deposited with the institution to those amounts covered by the Federal Deposit Insurance Corporation ("FDIC") and other third-party insurance in effect at the time of the failure. The University's goal is to mitigate as much custodial risk associated with its cash assets as possible. Deposits in the bank in excess of the insured amounts are uninsured and uncollateralized.

The University places funds with the MMDT, which is an instrumentality of the Treasurer of the Commonwealth and therefore is not covered by FDIC insurance and its political sub-divisions. It is designed as a legal means to temporarily invest available cash in safe, liquid and high yield investment vehicles by offering participation in a diversified portfolio of high quality money market instruments.

The University does not have a formal policy with respect to the custodial credit risk. Custodial credit risk is that, in the event of a failure of the counterparty, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Amounts remaining that may be exposed to custodial risk at June 30, 2017 and 2016 were \$541,734 and \$300,356, respectively, which are primarily maintained as part of the University's investment portfolio.

The University maintains a \$50,000 target balance in its clearing account which is fully covered under FDIC limits. Any amounts greater than the target balance are transferred based on an overnight purchase agreement. The investments in these agreements are U.S. agency issued securities fully backed by the U.S. Government.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Cash Equivalents and Deposits - Continued**

Credit Risk

The University is required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The University has also adopted its own formal investment policy, the objectives of which are: safety of principal; liquidity for operating needs; and return on investment. The University's investment policy generally limits the maturities of investments to not more than seven years. The University may also appoint a professional fund manager and invest in equity and bond funds. Eligible investments shall be consistent with those permitted by State Statutes.

As of June 30, 2017, and 2016, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$11,672,504 and \$11,975,615, respectively. At June 30, 2017, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 59% at 30 days or less; 25% at 31-90 days; 14% at 91-180 days; and 2% at 181 days or more. At June 30, 2016, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 54% at 30 days or less; 29% at 31-90 days; 11% at 91-180 days; and 6% at 181 days or more.

Note 3 - **Cash Held By State Treasurer**

Cash forwarded by the University to and held by the State Treasurer for payment of so-called "non-appropriated" liabilities at June 30, 2017 and 2016 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$1,751,316 and \$2,333,595, respectively.

Liabilities to be funded by state appropriations at June 30, 2017 and 2016 were \$969,059 and \$781,242, respectively.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments**

The University investments have been categorized based upon the fair value hierarchy in accordance with GASB 72 below. The Foundation follows similar guidance in accordance with Financial Accounting Standards Codification ASC 820-10 which prioritizes the inputs to valuation techniques used to measure fair value of investment assets into three levels also.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the University can access at measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for an asset or liability.

Mutual funds and common stock are valued at daily closing prices as reported by the fund while common stocks and corporate bonds are valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager. The stock and mutual funds are classified as Level 1 are deemed to be actively traded. U.S. Government obligations are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs.

University

The University's investments at fair value measurement are as follows at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 792,724	\$ -	\$ -	\$ 792,724
U.S. equities	1,195,212	-	-	1,195,212
Corporate bonds	465,470	-	-	465,470
U.S. Treasuries	455,276	-	-	455,276
International emerging	252,038			252,038
Mid Cap equities	273,741			273,741
Short-term fixed income	182,090	-	-	182,090
Total mutual funds	3,616,551	-	-	3,616,551
Common stocks	6,407,622	-	-	6,407,622
Corporate bonds	-	3,494,845	-	3,494,845
U.S. Government obligations	-	25,025	-	25,025
Total investment assets	<u>\$10,024,173</u>	<u>\$ 3,519,870</u>	<u>\$ -</u>	<u>\$ 13,544,043</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

The University's investments at fair value measurement are as follows at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 1,120,268	\$ -	\$ -	\$ 1,120,268
U.S. equities	739,655	-	-	739,655
Corporate bonds	696,139	-	-	696,139
U.S. Treasuries	283,172	-	-	283,172
Short-term fixed income	119,413	-	-	119,413
Total mutual funds	2,958,647	-	-	2,958,647
Common stocks	6,324,554	-	-	6,324,554
Corporate bonds	-	2,821,655	-	2,821,655
U.S. Government obligations	-	255,171	-	255,171
Total investment assets	\$ 9,283,201	\$ 3,076,826	\$ -	\$ 12,360,027

Foundation

The Foundation's investments at fair value measurement are as follows at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 2,996,051	\$ -	\$ -	\$ 2,996,051
U.S. equities	2,216,383	-	-	2,216,383
Large cap equities	1,019,785	-	-	1,019,785
Small and mid-cap equities	737,405	-	-	737,405
International bonds	632,583	-	-	632,583
Hard assets	629,337	-	-	629,337
International emerging	619,887	-	-	619,887
Short-term fixed income	545,401	-	-	545,401
Corporate bonds	475,171	-	-	475,171
Fixed income	421,279	-	-	421,279
Other	328,971	-	-	328,971
U.S. bonds and notes	197,975	-	-	197,975
Total mutual funds	10,820,228	-	-	10,820,228
Common stocks	9,228,960	-	-	9,228,960
Corporate bonds	-	5,999,953	-	5,999,953
Money market	2,670,673	-	-	2,670,673
U.S. Government obligations	649,922	-	-	649,922
Certificates of deposits	-	116,586	-	116,586
Other	500	-	-	500
Total investment assets	\$ 23,370,283	\$ 6,116,539	\$ -	\$ 29,486,822

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

Foundation - continued

The Foundation's investments at fair value measurement are as follows at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 3,166,921	\$ -	\$ -	\$ 3,166,921
U.S. equities	1,877,814	-	-	1,877,814
Large cap equities	990,665	-	-	990,665
Corporate bonds	973,455	-	-	973,455
Hard assets	680,620	-	-	680,620
International bonds	621,547	-	-	621,547
U.S. bonds and notes	417,472	-	-	417,472
Small and mid-cap equities	196,298	-	-	196,298
Short-term fixed income	163,452	-	-	163,452
Total mutual funds	9,088,244	-	-	9,088,244
Common stocks	8,305,369	-	-	8,305,369
Corporate bonds	-	5,362,503	-	5,362,503
Money market	3,066,192	-	-	3,066,192
U.S. Government obligations	620,165	-	-	620,165
Certificates of deposits	-	116,586	-	116,586
Other	500	-	-	500
Total investment assets	<u>\$ 21,080,470</u>	<u>\$ 5,479,089</u>	<u>\$ -</u>	<u>\$ 26,559,559</u>

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2017 and 2016, investments totaled \$13,544,043 and \$12,360,027, respectively. These holdings represent investments that are insured, registered and held by the University's investment agent in the University's name. At June 30, 2017 and 2016, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

Investments of the University are exposed to interest rate and market risk. They are stated at fair market value and consist of the following:

June 30, 2017 Investment Maturity in Years				
Investment Type:	Fair Value	Less than 1	1-5	6-10
Corporate bonds	\$ 3,494,845	\$ -	\$ 2,076,238	\$ 1,418,607
Corporate bond funds	465,470	-	221,602	243,868
U.S. Government obligations	25,025	-	25,025	-
Short-term fixed income	182,090	182,090	-	-
U.S. Treasuries	455,276	-	48,058	407,218
Total fixed income	4,622,706	\$ 182,090	\$ 2,370,923	\$ 2,069,693
Equity securities	8,921,337			
Total investments	\$ 13,544,043			

June 30, 2016 Investment Maturity in Years				
Investment Type:	Fair Value	Less than 1	1-5	6-10
Corporate bonds	\$ 2,821,655	\$ 497,450	\$ 2,298,117	\$ 26,088
Corporate bond funds	696,139	-	437,552	258,587
U.S. Government obligations	255,171	25,106	230,065	-
Short-term fixed income	119,413	119,413	-	-
U.S. Treasuries	283,172	-	-	283,172
Total fixed income	4,175,550	\$ 641,969	\$ 2,965,734	\$ 567,847
Equity securities	8,184,477			
Total investments	\$ 12,360,027			

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2017:

	Quality Ratings								
	Fair Value	Ba2	Baa1	Baa2	A1	A2	A3	AGCY	Not Rated
Corporate bonds	\$ 3,494,845	\$ 147,185	\$ 1,034,966	\$ 1,008,232	\$ 231,042	\$ 354,301	\$ 719,119	\$ -	\$ -
Corporate bond funds	465,470	-	-	-	-	-	-	-	465,470
U.S. Government obligations	25,025	-	-	-	-	-	-	25,025	-
Short-term fixed income	182,090	-	-	-	-	-	-	-	182,090
U.S. Treasuries	455,276	-	-	-	-	-	-	455,276	-
Totals	\$ 4,622,706	\$ 147,185	\$ 1,034,966	\$ 1,008,232	\$ 231,042	\$ 354,301	\$ 719,119	\$ 480,301	\$ 647,560

The following table summarizes the quality ratings of the University's debt investments at June 30, 2016:

	Quality Ratings									
	Fair Value	Ba1	Baa1	Baa2	A1	A2	A3	Aa1	AGCY	Not Rated
Corporate bonds	\$ 2,821,655	\$ 97,810	\$ 224,834	\$ 150,609	\$ 1,058,957	\$ 668,677	\$ 440,737	\$ 180,031	\$ -	\$ -
Corporate bond funds	696,139	-	-	-	-	-	-	-	-	696,139
U.S. Government obligations	255,171	-	-	-	-	-	-	-	255,171	-
Short-term fixed income	119,413	-	-	-	-	-	-	-	-	119,413
U.S. Treasuries	283,172	-	-	-	-	-	-	-	-	283,172
Totals	\$ 4,175,550	\$ 97,810	\$ 224,834	\$ 150,609	\$ 1,058,957	\$ 668,677	\$ 440,737	\$ 180,031	\$ 255,171	\$ 1,098,724

Investment Income (Loss)

The following schedule summarizes the investment income (loss) in the statements of revenues and expenses for the University and Foundation for the years ended June 30:

	University 2017	University 2016	Foundation 2017	Foundation 2016
Interest and dividends	\$ 502,758	\$ 373,089	\$ 598,409	\$ 599,381
Net realized and unrealized gains and (losses)	1,312,778	(484,011)	2,254,172	(733,394)
Investment fees	(60,060)	(59,041)	(94,807)	(124,036)
Total investment income (loss)	<u>\$ 1,755,476</u>	<u>\$ (169,963)</u>	<u>\$ 2,757,774</u>	<u>\$ (258,049)</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Accounts, Grants and Other Receivables**

The accounts, grants and other receivables balances were comprised of the following at June 30:

	2017	2016
Student accounts	\$ 11,452,495	\$ 14,366,931
Grants	620,278	581,952
Other	1,067,392	788,296
Total gross receivables	13,140,165	15,737,179
Less: allowance for doubtful accounts	(7,181,405)	(6,914,099)
Total accounts, grants and other receivables, net	\$ 5,958,760	\$ 8,823,080

Note 6 - **Pledges Receivable and Notes Receivable**

Pledges Receivable - Foundation

Pledges receivable for the Foundation consisted of the following as of June 30 and are expected to be realized as follows:

	2017	2016
Within one year	\$ 1,303,299	\$ 1,844,881
Between one to five years	4,696,662	1,646,793
More than five years	103,417	210,217
Total pledges receivables	6,103,378	3,701,891
Less:		
Allowance for doubtful accounts	(85,000)	(85,000)
Discount to net present value at 3%	(540,523)	(250,730)
Pledges receivable, net	5,477,855	3,366,161
Less: current portion of receivable	(1,303,299)	(1,844,881)
Long-term pledges receivable, net	\$ 4,174,556	\$ 1,521,280

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - **Pledges Receivable and Notes Receivable - Continued**

Notes Receivable - Foundation

During 2014, the Foundation provided a loan of \$600,000 to the Assistance Corporation to be used to purchase a property that was then leased to the University. The loan consisted of two notes: the first in the amount of \$200,000, requiring monthly principal payments of \$5,556 plus interest at 1.25%, maturing in August 2016; the second in the amount of \$400,000, requiring monthly principal payments of \$3,333 plus interest at 6.98% through August 2018, at which point the interest will be adjusted to the Federal Home Loan Bank of Boston Classic Rate for five-year maturities (2.28% and 1.57% at June 30, 2017 and 2016, respectively) plus 475 basis points. This note matures in August 2023. Funding was provided from the Foundation's investment portfolios and all repayments, including principal and interest, will be reinvested therein.

Future minimum maturities of the notes receivable for years subsequent to June 30, 2017 are as follows:

Years Ending June 30,	
2018	40,000
2019	40,000
2020	40,000
2021	40,000
2022	40,000
Thereafter	46,667
Total	<u>\$ 246,667</u>

Note 7 - **Loans Receivable and Payable**

Loans receivable and payable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Loan Program ("NSL"). The Federal Government originally provided the majority of the funds to support these programs. Under certain conditions loan payments from students made under those programs may be re-loaned after collection. The portion of the Perkins and NSL Programs provided by the Federal Government is refundable to the Federal Government upon the ending ("liquidation") of the University's participation in the programs.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Loans Receivable and Payable - Continued**

The prescribed practices for the Perkins and NSL programs do not provide for accrual of interest on student loans receivable or for the provision of an allowance for doubtful loans. Accordingly, interest on loans is recorded as received, and loan balances are reduced subsequent to the determination of their lack of collectability and have been accepted (assigned) by the Department of Education. Management closely monitors outstanding balances and assigns loans to the Department of Education based upon such factors as student payment history, current status of applicable students and the results of collection efforts.

Loans receivable from students include the following at June 30,:

	2017	2016
Perkins	\$ 1,433,891	\$ 1,368,007
Nursing	573,197	615,411
Other	20,620	22,384
Total loans receivable	2,027,708	2,005,802
Less: amount due in one year	(221,611)	(264,430)
Long-term loan receivables	\$ 1,806,097	\$ 1,741,372

Amounts that would have to be repaid to the Federal Government upon liquidation by the University at June 30 are as follows:

	2017	2016
Perkins	\$ 1,425,966	\$ 1,507,927
Nursing	764,207	751,605
Total loans payable	\$ 2,190,173	\$ 2,259,532

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The University is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets**

University

Capital asset activity for the University for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Transfer to Capital Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	20,361,280	17,167,580	(31,157,344)	6,371,516
Total capital assets not depreciated	<u>22,897,453</u>	<u>17,167,580</u>	<u>(31,157,344)</u>	<u>8,907,689</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	106,433,382	-	30,516,182	136,949,564
Furniture and equipment	29,507,734	252,339	641,162	30,401,235
Total capital assets depreciated	<u>226,071,051</u>	<u>252,339</u>	<u>31,157,344</u>	<u>257,480,734</u>
Total capital assets	<u>248,968,504</u>	<u>17,419,919</u>	<u>-</u>	<u>266,388,423</u>
Less: accumulated depreciation:				
Buildings	24,897,058	1,928,972	-	26,826,030
Building improvements	35,878,971	5,181,620	-	41,060,591
Furniture and equipment	24,487,488	1,366,225	-	25,853,713
Total accumulated depreciation	<u>85,263,517</u>	<u>8,476,817</u>	<u>-</u>	<u>93,740,334</u>
Capital assets, net	<u>\$ 163,704,987</u>	<u>\$ 8,943,102</u>	<u>\$ -</u>	<u>\$ 172,648,089</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

University - continued

Capital asset activity for the University for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Transfer to Capital Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	12,455,886	15,228,683	(7,323,289)	20,361,280
Total capital assets not depreciated	<u>14,992,059</u>	<u>15,228,683</u>	<u>(7,323,289)</u>	<u>22,897,453</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	98,373,297	862,795	7,197,290	106,433,382
Furniture and equipment	29,279,716	102,019	125,999	29,507,734
Total capital assets depreciated	<u>217,782,948</u>	<u>964,814</u>	<u>7,323,289</u>	<u>226,071,051</u>
Total capital assets	<u>232,775,007</u>	<u>16,193,497</u>	<u>-</u>	<u>248,968,504</u>
Less: accumulated depreciation:				
Buildings	22,968,084	1,928,974	-	24,897,058
Building improvements	31,576,762	4,302,209	-	35,878,971
Furniture and equipment	22,842,001	1,645,487	-	24,487,488
Total accumulated depreciation	<u>77,386,847</u>	<u>7,876,670</u>	<u>-</u>	<u>85,263,517</u>
Capital assets, net	<u>\$ 155,388,160</u>	<u>\$ 8,316,827</u>	<u>\$ -</u>	<u>\$ 163,704,987</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

Assistance Corporation

Capital asset activity of the Assistance Corporation for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 7,621,892	\$ 539,590	\$ 8,161,482
Total capital assets not depreciated	<u>7,621,892</u>	<u>539,590</u>	<u>8,161,482</u>
Capital assets depreciated:			
Buildings	1,446,719	338,841	1,785,560
Building improvements	4,214,941	-	4,214,941
Furniture and equipment	191,112	-	191,112
Total capital assets depreciated	<u>5,852,772</u>	<u>338,841</u>	<u>6,191,613</u>
Total capital assets	<u>13,474,664</u>	<u>878,431</u>	<u>14,353,095</u>
Less accumulated depreciation:			
Buildings	533,213	36,168	569,381
Buildings improvements	1,723,433	120,123	1,843,556
Furniture and equipment	174,721	9,507	184,228
Total accumulated depreciation	<u>2,431,367</u>	<u>165,798</u>	<u>2,597,165</u>
Capital assets, net	<u>\$ 11,043,297</u>	<u>\$ 712,633</u>	<u>\$ 11,755,930</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

Assistance Corporation - continued

Capital asset activity of the Assistance Corporation for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 6,987,769	\$ 634,123	\$ 7,621,892
Total capital assets not depreciated	<u>6,987,769</u>	<u>634,123</u>	<u>7,621,892</u>
Capital assets depreciated:			
Buildings	1,170,018	276,701	1,446,719
Building improvements	4,214,941	-	4,214,941
Furniture and equipment	191,112	-	191,112
Total capital assets depreciated	<u>5,576,071</u>	<u>276,701</u>	<u>5,852,772</u>
Total capital assets	<u>12,563,840</u>	<u>910,824</u>	<u>13,474,664</u>
Less accumulated depreciation:			
Buildings	498,275	34,938	533,213
Buildings improvements	1,598,515	124,918	1,723,433
Furniture and equipment	165,212	9,509	174,721
Total accumulated depreciation	<u>2,262,002</u>	<u>169,365</u>	<u>2,431,367</u>
Capital assets, net	<u>\$ 10,301,838</u>	<u>\$ 741,459</u>	<u>\$ 11,043,297</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include the following at June 30, 2017 and 2016:

	2017	2016
Accounts payable - trade	\$ 2,230,457	\$ 1,884,259
Accrued interest payable	391,022	362,094
Tuition due to state	77,450	76,817
Other	1,336,547	1,078,611
Total accounts payable and accrued expenses	\$ 4,035,476	\$ 3,401,781

Note 10 - **Unearned Revenues**

Unearned revenues include tuition received in advance from students for courses commencing after June 30 primarily for summer and fall semesters (FY 2018) and grant funds received in advance. Unearned revenues of the University include the following at June 30,:

	2017	2016
Tuition and fees	\$ 2,726,159	\$ 7,079,442
Grants	415,797	328,324
Other	1,294	20,038
Total unearned revenue	\$ 3,143,250	\$ 7,427,804

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities**

Long-term liabilities of the University at June 30, 2017 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 39,806,037	\$ 3,795,907	\$ 1,782,461	\$ 41,819,483	\$ 1,870,449
Bond premiums	3,583,843	-	200,903	3,382,940	200,892
Loans payable	2,259,532	-	69,359	2,190,173	-
Note payable	161,919	-	67,675	94,244	81,546
Total bonds, loans and note payable	<u>45,811,331</u>	<u>3,795,907</u>	<u>2,120,398</u>	<u>47,486,840</u>	<u>2,152,887</u>
Other long-term liabilities:					
Accrued compensated absences	9,557,763	202,453	-	9,760,216	6,120,020
Workers' compensaton	958,082	219,236	-	1,177,318	222,168
Net pension liability	44,297,126	2,676,270	-	46,973,396	-
Total other long-term liabilities	<u>54,812,971</u>	<u>3,097,959</u>	<u>-</u>	<u>57,910,930</u>	<u>6,342,188</u>
Total long-term liabilities	<u>\$ 100,624,302</u>	<u>\$ 6,893,866</u>	<u>\$ 2,120,398</u>	<u>\$ 105,397,770</u>	<u>\$ 8,495,075</u>

Long-term liabilities of the University at June 30, 2016 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 40,322,832	\$ 1,090,000	\$ 1,606,795	\$ 39,806,037	\$ 1,664,256
Bond premiums	3,730,972	53,758	200,887	3,583,843	200,892
Loans payable	2,290,470	-	30,938	2,259,532	-
Note payable	234,388	-	72,469	161,919	73,887
Total bonds, loans and note payable	<u>46,578,662</u>	<u>1,143,758</u>	<u>1,911,089</u>	<u>45,811,331</u>	<u>1,939,035</u>
Other long-term liabilities:					
Accrued compensated absences	9,202,884	354,879	-	9,557,763	6,029,533
Workers' compensaton	1,176,844	-	218,762	958,082	202,631
Net pension liability	21,889,032	22,408,094	-	44,297,126	-
Total other long-term liabilities	<u>32,268,760</u>	<u>22,762,973</u>	<u>218,762</u>	<u>54,812,971</u>	<u>6,232,164</u>
Total long-term liabilities	<u>\$ 78,847,422</u>	<u>\$ 23,906,731</u>	<u>\$ 2,129,851</u>	<u>\$ 100,624,302</u>	<u>\$ 8,171,199</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities - Continued**

Bonds Payable - University

Over the past 11 years, the University, in association with the MSCBA, DCAMM and the Massachusetts Development Finance Agency (“MDFA”), has entered into financing and construction agreements for various campus projects. The projects are as follows:

O’Keefe Athletic Complex Fields

During fiscal year 2005, the University entered into an agreement with the MSCBA to initiate a construction project to upgrade the University’s athletic field at the O’Keefe Athletic Complex. The scope of the services provided by MSCBA included planning and design as well as project management and construction. The project was completed during fiscal year 2006. The source of financing for the project is based on the issuance of Project Revenue Bonds issued by MSCBA on behalf of the University (Series 2005A via First Albany Capital, Public Finance).

Through its agreement with MSCBA, the University has an agreement to re-pay this debt in semi-annual installments, which started June 30, 2005 and ends June 30, 2025 at an annual variable coupon rate averaging approximately 4.25%. The outstanding balance of this obligation including unamortized bond premium was \$1,600,839 and \$1,746,756 at June 30, 2017 and 2016, respectively.

Central Campus Athletic Field and Tennis Court

During fiscal year 2006, the MSCBA issued Project 2006A bonds to support a project for the construction of a multi-purpose athletic field and tennis courts on the Central Campus of the University. The University has an agreement with the MSCBA to re-pay this debt in semi-annual installments, which started May 1, 2006 and ends May 1, 2026, at an annual coupon rate of approximately 4.26%. The outstanding balance of this obligation including unamortized bond premium was \$1,989,833 and \$2,150,153 at June 30, 2017 and 2016, respectively.

Clean Renewable Energy Initiatives

During fiscal year 2008, the MDFA issued Clean Renewable Energy Bonds totaling \$214,500 on behalf of the University. The proceeds from this issue were used to install solar panels on various buildings on campus. Through its agreement with MDFA, the University agreed to re-pay this interest free debt with annual principal installments of \$14,300. The term of the issue is from December 31, 2007 to December 31, 2020. The outstanding balance of this obligation was \$71,500 and \$85,800 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities - Continued**

In September 2010, the Commonwealth of Massachusetts issued Clean Renewable Energy Bonds (“CREBS”) at 3.5%. From this bond issue, the University received \$289,995 for the purpose of acquiring and installing solar panels on the O’Keefe Center. The University makes semi-annual payments of interest and principal. The bond holder is Century Bank. The term of the bond extends to May 2027. The outstanding balance of the obligation was \$170,585 and \$187,643 at June 30, 2017 and 2016, respectively.

Harold E. and Marilyn J. Gassett Fitness & Recreation Center at the O’Keefe Athletic Complex

In January of 2012, the MSCBA issued 2012A Project Bonds. The University was allotted \$16,028,603 for the construction of a Fitness Center as part of the O’Keefe Athletic Complex. The University’s portion of this issue consisted of principal of \$14,230,000 with a premium of \$1,798,603. The term of this debt extends to June 30, 2036 with a true interest cost (“TIC”) of 3.94%. The outstanding balance of this obligation including unamortized bond premium was \$14,114,243 and \$14,592,610 at June 30, 2017 and 2016, respectively.

With this issue, the 2005 and 2006 bond issues were refinanced at the lower TIC. This resulted in lower interest payments on both the 2005 and 2006 bond issues starting with the MSCBA 2012 spring assessment until the respective maturity date of each bond. The Debt Service Reserve for the 2005 bond was also reduced by approximately \$159,000 leaving a balance of \$88,612. A debt service reserve remains for the 2006 bond in the amount of \$245,737, which is unchanged from FY 2012.

Sophia Gordon Center for Creative and Performing Arts Theatre and Other Projects

During January 2014, the MSCBA issued 2014 project bonds on behalf of the University. These bond proceeds along with other University funds are being used to fund the construction of various projects on campus. These projects include the creation of the Student Navigation Center, comprehensive renovations to the Sophia Gordon Center for Creative and Performing Arts Theatre, relocation of the Public Safety station and the development and creation of a parking lot on Assistance Corporation owned land. These bonds consist of principal in the amount of \$19,030,000, issued at a premium of \$2,243,187. The average annual coupon rate is approximately 4.0% over the life of the issue, and the term of this debt extends to June 30, 2033. The outstanding balance of this obligation including unamortized bond premium was \$19,108,461 and \$19,923,996 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities - Continued**

Land Acquisition Bond

In addition to the MSCBA issued 2014 project bonds, the MSCBA held additional bond proceeds for the University to use for future land acquisitions. These bond proceeds were used for land acquisitions on behalf of the Assistance Corporation during the 2016 fiscal year and have been included as a contribution (expense) to the Assistance Corporation in these financial statements under Non-Operating Revenues (Expenses). This bond amount consists of principal in the amount of \$1,090,000, issued at a premium of \$53,758. The average annual coupon rate is approximately 4.8% over the life of the issue, and the term of this debt extends to June 30, 2048. The outstanding balance of this obligation including unamortized bond premium was \$1,110,500 and \$1,127,129 at June 30, 2017 and 2016, respectively.

Clean Energy Investment Program

During July 2013, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project – Phase 1 (the project). In addition, during February 2014, the University entered into a second Memorandum of Agreement with DCAMM related to the same project but known as Phase 2. The project's goal is to upgrade the University campus wide lighting and lighting controls, water conservation and vending machine controls, motors, steam traps, pipe insulation, kitchen hood controls, energy management system upgrades, high efficiency gas boilers and HVAC modifications.

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase 3 (the project). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, EMS and HVAC upgrades.

The total project cost for Phase 1 is \$1,694,560 and is to be repaid over 15 years at 4.0% interest per annum. Annual payments of principal and interest for Phase 1 in the amount of \$152,411 commenced in January 2015. The total project cost for Phase 2 is \$2,291,402 and is to be repaid over 15 years at 3.75% interest per annum. Annual payments of principal and interest for Phase 2 in the amount of \$202,505 commenced in January 2015. The total project cost for the University for Phase 3 is \$2,801,950 and will be repaid over 20 years at 3.0% interest per annum commencing on January 1, 2018. The annual payments of principal and interest for Phase 3 amount to \$188,335 per annum. The outstanding balance of the obligations for Phase 1, 2 and 3 was \$6,160,724 and \$3,575,793 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities - Continued**

Property Acquisition – Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate acquisitions. These bond proceeds were used for property acquisitions on behalf of the Assistance Corporation during June 2017 and have been included as a contribution (expense) to the Assistance Corporation in these financial statements under Non-Operating Revenues (Expenses). This bond amount consists of principal in the amount of \$875,738 as of June 30, 2017. The average annual coupon rate is approximately 5.0% over the life of the issue, and the term of this debt extends to June 30, 2044.

Debt Service Reserves

Total debt service reserves held by the MSCBA for past bond issuances amount to \$1,473,340 at June 30, 2017 and 2016.

Bond Payable Maturities

Maturities of the bonds payable subsequent to June 30, 2017 are as follows:

Years Ending June 30,	Principal	Amortization of Premium	Interest	Total
2018	\$ 1,870,449	\$ 200,892	\$ 1,903,314	\$ 3,974,655
2019	2,000,775	200,892	1,959,121	4,160,788
2020	2,065,608	200,892	1,785,157	4,051,657
2021	2,155,281	200,892	1,693,582	4,049,755
2022	2,244,670	200,892	1,597,494	4,043,056
2023-2027	12,092,668	990,675	6,323,603	19,406,946
2028-2032	11,996,496	952,690	3,491,407	16,440,593
2033-2037	6,488,383	417,205	863,076	7,768,664
2038-2042	450,834	8,145	176,201	635,180
2043-2048	454,319	9,765	64,991	529,075
Total	<u>\$ 41,819,483</u>	<u>\$ 3,382,940</u>	<u>\$ 19,857,946</u>	<u>\$ 65,060,369</u>

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Note 11 - **Long-Term Liabilities - Continued**

Note Payable University

During September 2013, a note payable was acquired for \$363,653 to purchase various equipment for use in the Gasset Fitness Center. The note payable term is for five years, requires monthly payments of \$6,364, has an average interest rate of 2% and is payable through August 2018. The annual principal payments on this note are as follows:

Years Ending June 30,	
2018	\$ 81,546
2019	12,698
Total	<u>\$ 94,244</u>

Long-term Liabilities - Assistance Corporation

Long-term liabilities for the Assistance Corporation at June 30, 2017 consisted of:

	<u>Beginning Balance</u>	<u>Increases (Reductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Notes payable	\$ 1,507,857	\$ (85,691)	\$ 1,422,166	\$ 70,135	\$ 1,352,031
Bonds payable	2,136,400	(488,709)	1,647,691	350,010	1,297,681
Other notes	34,078	(7,125)	26,953	-	26,953
Total	<u>\$ 3,678,335</u>	<u>\$ (581,525)</u>	<u>\$ 3,096,810</u>	<u>\$ 420,145</u>	<u>\$ 2,676,665</u>

Long-term liabilities for the Assistance Corporation at June 30, 2016 consisted of:

	<u>Beginning Balance</u>	<u>Increases (Reductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Notes payable	\$ 1,647,058	\$ (139,201)	\$ 1,507,857	\$ 86,424	\$ 1,421,433
Bonds payable	2,609,043	(472,643)	2,136,400	333,838	1,802,562
Other notes	31,630	2,448	34,078.00	-	34,078
Total	<u>\$ 4,287,731</u>	<u>\$ (609,396)</u>	<u>\$ 3,678,335</u>	<u>\$ 420,262</u>	<u>\$ 3,258,073</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities - Continued**

Notes Payable Assistance Corporation

The Assistance Corporation has two promissory notes outstanding with the Salem State University Foundation. Under the terms of the first promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$400,000 plus interest accruing at 6.98% per annum. Principal payments in the amount of \$3,333 plus interest are due monthly. Under the agreement, the interest rate will be adjusted so that it is equal to 475 basis points above the Federal Home Loan Bank of Boston Classic rate for 5 year maturities. The entire outstanding principal balance of the note along with any accrued interest is due on August 2023. Under the terms of the second promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$200,000 plus interest accruing at 1.25% per annum. Principal payments in the amount of \$5,556 plus interest are due monthly. The entire outstanding principal balance of the note along with any accrued interest was paid during the year ended June 30, 2017.

Notes Payable Assistance Corporation - continued

The Assistance Corporation maintains a loan with a bank. The loan is a five year adjustable rate mortgage due September 2022 with a 25-year amortization. Payments in the amount of \$6,856, including principal and interest at 3.95% are due monthly through August 2017 at which time the interest rate will be adjusted to 4.625% for the remainder of the term. A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

The annual debt service requirements to maturity for the note payable are as follows:

Years Ending	Principal	Interest
June 30,		
2018	\$ 70,135	\$ 68,187
2019	70,187	65,420
2020	71,613	61,199
2021	73,107	56,893
2022	74,671	52,517
Thereafter	1,062,453	13,724
Total	\$ 1,422,166	\$ 317,940

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities – Continued**

Bonds Payable Assistance Corporation

In August 2010, HEFA issued Revenue Bonds, Salem State University Assistance Corporation Issue, Series 2010A bearing interest at 3.26% with a maturity date of September 15, 2020 in the amount of \$4,700,000. HEFA sold the bonds to TD Bank and loaned the proceeds to the Assistance Corporation.

The loan proceeds were used to acquire additional rental property that would be leased to the University for approximately \$4,500,000 and to pay for associated financial and closing costs. This property is currently being leased under an agreement with Salem State University. Subsequent to June 30, 2017, principal and interest payments on the revenue bond payable for the next five years are as follows:

Years Ending June 30,	Principal	Interest
2018	\$ 350,010	\$ 48,516
2019	361,592	36,933
2020	373,558	24,968
2021	562,531	4,326
Total	\$ 1,647,691	\$ 114,743

Note 12 - **Pensions**

Defined Benefit Plan Description

The University makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$7,462,847 and \$6,866,271 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 68% and 70% of total related payroll for fiscal years end June 30, 2017, respectively.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Defined Benefit Plan Description - continued

Certain employees of the University participate in a cost-sharing multiple-employer defined benefit-pension plan – the Massachusetts State Employees’ Retirement System (“SERS”) – administered by the Massachusetts State Board of Retirement (the “Board”), which is a public employee retirement system (“PERS”). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits through the plan, regardless of the status of the employers’ payment of its pension obligations to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The Massachusetts State Employees’ Retirement System does not issue a stand-alone financial statement.

Benefit Provisions

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (“MGL”) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated based on the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member’s age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 are not eligible for retirement until they have reached age 60.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Contributions

The SERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. Member contributions for SERS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>Percent of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

The University is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The University contributed \$2,716,688 and \$2,446,187 for the fiscal years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017 and 2016, the University reported a liability of \$46,973,396 and \$44,297,126, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. The University's proportion of the net pension liability was based on its share of the Commonwealth's collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the University for the fiscal years 2016 and 2015, respectively. The University's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2016 and 2015, the University's proportion was 0.341% and 0.389%, respectively.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - continued

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$4,746,159 and \$4,420,084, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	<u>2017</u>	<u>2016</u>
<u>Deferred Outflows of Resources</u>		
Difference between expected and actual experience	\$ 2,231,111	\$ 875,604
Net differences between projected and actual earnings on pension plan investments	3,153,237	-
Change in plan actuarial assumptions, net	5,209,037	7,671,355
Changes in proportion from Commonwealth	104,648	-
Changes in proportion due to internal allocation	6,211,803	8,084,944
Contributions subsequent to the measurement date	<u>2,716,688</u>	<u>2,446,187</u>
Total deferred outflows related to pension	<u>\$19,626,524</u>	<u>\$19,078,090</u>
<u>Deferred Inflows of Resources</u>		
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 1,272,915
Changes in proportion from Commonwealth	22,631	34,006
Changes in proportion due to internal allocation	<u>3,867,474</u>	<u>-</u>
Total deferred inflows related to pension	<u>\$ 3,890,105</u>	<u>\$ 1,306,921</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12- **Pensions - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - continued

The University's contributions of \$2,716,677 and \$2,446,187 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2018	\$ 2,947,461
2019	2,947,461
2020	4,213,615
2021	2,680,542
2022	<u>230,652</u>
	<u>\$13,019,731</u>

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement date	June 30, 2017	June 30, 2016
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2016 and 2015, mortality rates were based on:

- Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions – Continued**

Actuarial Assumptions - continued

The actuarial assumptions used in the January 1, 2016 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2017 were consistent with the results of the actuarial experience study performed as of January 1, 2016.

The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of the actuarial experience study performed as of January 1, 2015.

Investment assets of SERS are with the Pension Reserves Investment Trust (“PRIT”) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, are summarized in the following table:

Asset Class	2016		2015	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Estate	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	100%		100%	

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at both June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

June 30, 2017		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 61,213,612	\$46,973,396	\$ 34,904,261
June 30, 2016		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 60,214,065	\$44,297,126	\$ 30,568,182

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 13 - **Deferred Inflows of Resources**

Service Concession Arrangements

Deferred inflows of resources include contributions made by certain vendors. The University's food service operations are managed under an agreement by an outside party. In accordance with an agreement and subsequent amendments, the vendor has made several contributions over the period from January 2002 through October 2015 totaling \$4,380,000.

The term of the agreement was extended until 2022, and the amortization tables were adjusted accordingly. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2017 and 2016, the unamortized portion of these contributions approximated \$658,000 and \$867,000, respectively.

Amounts related to agreements with other vendors at June 30, 2017 and 2016 approximated \$340,000 and \$442,000, respectively.

Note 14 - **Rental Income**

Assistance Corporation

The Assistance Corporation has long-term operating leases with lessees, including Salem State University. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2017 are as follows:

Years Ending June 30,	Amount
2018	\$ 1,616,463
2019	1,271,363
2020	1,181,767
2021	1,365,607
2022	814,716
Thereafter	19,143,754
Total	<u>\$ 25,393,670</u>

The base rent under one of the lease agreements with the University is equal to the monthly debt service on the debt held by TD Bank. The terms of the lease agreement require the University to remit monthly rent directly to TD Bank. The University, at its discretion, may make additional rent payments to be applied to the outstanding debt balance.

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Notes to the Financial Statements

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Note 15 - **Operating Lease Commitments**

The University has numerous operating leases for property at various locations from the Assistance Corporation and for equipment from outside vendors. These leases contain options to extend from one to five years, and contain escalation clauses for increases in base rent. These leases expire in various years through 2040. Future minimum payments related to these leases are as follows:

Years Ending June 30,	Assistance Corporation	Outside Vendors	Total
2018	\$ 1,771,183	\$ 364,676	\$ 2,135,859
2019	1,523,468	72,171	1,595,639
2020	1,004,923	10,539	1,015,462
2021	800,748	10,539	811,287
2022	820,825	2,635	823,460
Thereafter	19,043,321	-	19,043,321
Total	<u>\$24,964,468</u>	<u>\$ 460,560</u>	<u>\$25,425,028</u>

The rent expense on these leases amounted to approximately \$1,423,000 and \$1,501,000 for fiscal years 2017 and 2016, respectively.

Note 16 - **Restricted Net Position**

The University is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following at June 30,:

	<u>2017</u>	<u>2016</u>
Restricted - nonexpendable:		
Scholarship and fellowship	<u>\$ 810,323</u>	<u>\$ 732,690</u>
Restricted - expendable:		
Scholarship, fellowship loans, research grants and contracts	<u>\$5,174,752</u>	<u>\$4,871,719</u>

The Foundation's restricted - nonexpendable and expendable net position consists of investments to be utilized for various scholarships and program support.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 17 - **Commitments and Contingencies**

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions and natural disasters for which the Commonwealth is self-insured.

Various lawsuits are pending or threatened against the University which arise in the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened which would materially affect the University's financial position.

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditure resulting from such audits becomes a liability of the University. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

The University participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for the future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The University is obligated to accept as payment of tuition the amount determined by this Program without regard to standard tuition rates in effect at the time of the individual's enrollment at the University. The effect of the program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the University.

The U.S. Environmental Protection Agency ("EPA") notified the University in August 1998 that it is a potential responsible party with respect to environmental impacts resulting from contaminated soil upon the removal of underground oil tanks in 1991. The EPA has not closed out their investigation. During fiscal year 2017 and 2016, the University paid no remediation costs and received no communication from federal or state agencies. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

Several of the employee union labor contracts have recently expired, including the Association of Professional Administrators ("APA") contract which expired on December 31, 2016. Negotiations are currently underway and may result in a retroactive payment of salaries. This payroll amount, along with its related fringe benefits is estimated to range between \$100,000 and \$225,000 and would be expected to be paid out during fiscal year 2018.

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Note 18 - **Operating Expenses**

The University's operating expenses, on a natural classification basis, are comprised of the following at June 30:

	2017	2016
Compensation and benefits	\$ 122,984,490	\$ 116,804,359
Supplies and services	37,324,136	35,897,786
Utilities	4,179,198	4,276,343
Depreciation	8,476,817	7,876,670
Scholarships and fellowships	5,626,549	4,788,660
Total operating expenses	\$ 178,591,190	\$ 169,643,818

Note 19 - **Fringe Benefit Program**

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension and workers' compensation benefits. Health insurance costs for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net assets and the results of current year operations, due to the adoption of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions.

The overall fringe benefit charge increased from 30.82% in 2016 to 35.16% in 2017 which includes 1.65% and 1.66% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 9.45% in 2016 to 9.95% in 2017. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

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June 30, 2017 and 2016

Note 19 - **Fringe Benefit Program - Continued**

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2017, 2016, and 2015 were \$6,528,137, \$5,202,742, and \$3,995,322, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the State Retirement Benefits Trust Fund. The University will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other postemployment benefit ("OPEB") obligation. OPEB expense reported in the University's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Insurance

The Group Insurance Commission ("GIC") was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees, retirees, their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, participating municipalities and retired municipal employees and teachers in certain governmental units.

Health coverage options include an Indemnity plan, Preferred Provider-type Organizations ("PPO"), an Exclusive Provider Organization ("EPO") and multiple HMO plans. The GIC also manages basic and optional life insurance coverage. As part of its UniCare State indemnity and active employee Tufts Health plans, it manages mental health/substance abuse benefits and also manages pharmacy benefits for the indemnity plans.

For active state employees only, the GIC offers a long-term disability ("LTD") program, two pre-tax employee programs - Health Care Spending Account ("HCSA") and Dependent Care Assistance Program ("DCAP"), and for managers, legislators, legislative staff and certain Executive Office staff, a dental/vision plan. The GIC also offers a discount vision and a dental plan for Commonwealth retirees.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 19 - **Fringe Benefit Program - Continued**

Insurance – continued

The GIC administers a plan included within the State Retiree Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios. The GIC does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated in the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

The GIC is a quasi-independent state agency governed by an 11-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 20 - **Massachusetts Management Accounting Reporting System (“MMARS”)**

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus-based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, MMARS, using the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. The amounts reported on MMARS meet the guidelines of the Comptroller's Guide for Higher Education Audited Financial Statements.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 20 - **Massachusetts Management Accounting Reporting System (“MMARS”) – Continued**

The University’s state appropriations are composed of the following at June 30,:

	<u>2017</u>	<u>2016</u>
General Appropriations	\$ 43,997,174	\$ 43,541,763
Other Appropriations	<u>938,772</u>	<u>1,002,071</u>
Total Appropriations	\$ 44,935,946	\$ 44,543,834
 <u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	14,765,927	12,778,016
 <u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	<u>(934,235)</u>	<u>(905,670)</u>
Total unrestricted appropriations	<u>\$ 58,767,638</u>	<u>\$ 56,416,180</u>

A reconciliation between the University and MMARS fund 901 activity as of June 30 is as follows (unaudited):

	<u>2017</u>	<u>2016</u>
Revenue per MMARS	\$ 67,280,576	\$ 67,384,750
Revenue per University	<u>67,280,576</u>	<u>67,384,750</u>
Difference	<u>\$ -</u>	<u>\$ -</u>

Note 21 - **Pass-Through Student Federal Loans**

The University distributed approximately \$48,492,000 and \$47,580,000 for the years ended June 30, 2017 and 2016, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included in the accompanying financial statements.

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Notes to the Financial Statements

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Note 22 - **Massachusetts State College Building Authority (“MSCBA”)**

The MSCBA was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing residence halls and other facilities for use by students of the state universities of the Commonwealth, as well as major construction projects on their campuses. The residence halls are leased from the MSCBA for various terms, allowing for periods of up to 10 years.

The University is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls, as well as debt service on instruments issued for dormitory and other major construction projects for the University. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations.

These obligations may include the costs of periodic renovations and improvements to the residence halls, as well as other major construction performed on campus, which has included athletic field construction and repair.

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations and other major renovations and improvements for the University for the years ended June 30, 2017 and 2016 were \$14,049,442 and \$12,857,064, respectively, and are included in auxiliary enterprises and operation and maintenance of plant in the accompanying statements of revenues and expenses. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Draft

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.341%	0.389%	0.295%
Proportionate share of the collective net pension liability	\$ 46,973,396	\$ 44,297,126	\$ 21,889,023
College's covered-employee payroll	\$ 25,885,577	\$ 23,448,807	\$ 21,870,164
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,716,688	\$ 2,446,187	\$ 2,436,331
Contributions in relation to the statutorily required contribution	<u>(2,716,688)</u>	<u>(2,446,187)</u>	<u>(2,436,331)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 27,303,397	\$ 25,885,577	\$ 23,448,807
Contribution as a percentage of covered-employee payroll	9.95%	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2017, 2016 and 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning during the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning during the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The University's proportionate share of the net pension liability and the results of changes in assumptions is 0.341%, 0.389% and 0.295%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the University to total contributions by all participating State Agencies.

**SUPPLEMENTARY
INFORMATION**

Draft

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedules of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Assets:		
Cash and equivalents	\$ 1,608,759	\$ 1,391,316
Accounts receivable, net	169,855	202,233
Other receivables, net	-	33,240
	<hr/>	<hr/>
Total Assets	\$ 1,778,614	\$ 1,626,789
	<hr/> <hr/>	<hr/> <hr/>
	<u>Liabilities and Net Position</u>	
Liabilities:		
Accounts payable	\$ 78,756	\$ 16,074
Accrued payroll and fringe benefits	139,944	106,132
Accrued compensated absences	260,155	260,789
	<hr/>	<hr/>
Total Liabilities	478,855	382,995
Net Position	<hr/> 1,299,759 <hr/>	<hr/> 1,243,794 <hr/>
Total Liabilities and Net Position	<hr/> \$ 1,778,614 <hr/>	<hr/> \$ 1,626,789 <hr/>

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedules of Revenues, Expenses, and Changes in Net Position
Dormitory Trust Fund Report (Unaudited)

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Student fees	\$ 18,929,872	\$ 18,351,760
Less: scholarships and fellowships	(1,007,558)	(978,675)
Commissions	269,019	57,893
Rentals	<u>55,501</u>	<u>173,607</u>
Total Revenues	<u>18,246,834</u>	<u>17,604,585</u>
Expenses:		
Regular employee compensation	2,419,958	2,211,497
Regular employee related expenses	259	271
Special employee compensation	821,780	778,265
Pension and insurance related	831,956	694,857
Administrative	279,957	62,327
Facility operational	182,046	89,758
Energy and space rental	1,465,616	1,556,511
Operational services	33,681	60,425
Equipment purchase	22,232	47,253
Equipment maintenance	726,971	811,179
Loans and special payments	11,848,929	11,576,973
Information technology	<u>8,047</u>	<u>18,859</u>
Total Expenses	<u>18,641,432</u>	<u>17,908,175</u>
Excess of Expenses over Revenues Before Transfers	(394,598)	(303,590)
Net Transfers	<u>450,563</u>	<u>457,537</u>
Total Increase (Decrease) in Net Position	<u>55,965</u>	<u>153,947</u>
Net Position, Beginning of Year	<u>1,243,794</u>	<u>1,089,847</u>
Net Position, End of Year	<u>\$ 1,299,759</u>	<u>\$ 1,243,794</u>

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Board of Trustees of
Salem State University
Salem, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, cash flows, the combining statements of net position of major component units, and combining statements of revenues and expenses of major component units for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated **DATE**. We also performed the audit of the Salem State University Foundation and the Salem State University Alumni Association's financial statements, as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Salem State University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salem State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Certified Public Accountants
Braintree, Massachusetts**

DATE

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**INDEPENDENT AUDITORS' REPORTS AS REQUIRED
BY THE UNIFORM GUIDANCE AND *GOVERNMENT*
AUDITING STANDARDS AND RELATED
INFORMATION**

JUNE 30, 2017

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Independent Auditors' Reports as Required by the Uniform Guidance and
Government Auditing Standards and Related Information**

June 30, 2017

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Salem State University
Salem, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Salem State University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-001 through 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Salem State University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Salem State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University, as of and for the year ended June 30, 2017. We issued our report thereon dated **DATE**, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

DATE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Trustees of
Salem State University
Salem, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, cash flows, the combining statements of net position of major component units, and combining statements of revenues and expenses of major component units for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated DATE. We also performed the audit of the Salem State University Foundation and the Salem State University Alumni Association's financial statements, as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Salem State University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salem State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Certified Public
Accountants Braintree,
Massachusetts**

DATE

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Federal Expenditures	Passed Through to Subrecipients
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	\$ 407,040	\$ -
Federal Work-Study Program	84.033	N/A	N/A	420,914	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	1,507,927	-
Federal Perkins Loan Program (current year expenditure)	84.038	N/A	N/A	381,470	-
Federal Pell Grant Program	84.063	N/A	N/A	11,588,194	-
Federal Direct Student Loans	84.268	N/A	N/A	48,492,277	-
Teachers Education Assistance for College Grant	84.379	N/A	N/A	16,294	-
Nursing Student Loans (beginning of year)	93.364	N/A	N/A	751,605	-
Nursing Student Loans (current year expenditures)	93.364	N/A	N/A	63,750	-
				<hr/>	<hr/>
Total Student Financial Assistance Cluster				63,629,471	-
TRIO CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Student Support Services	84.042	N/A	N/A	532,230	-
Upward Bound	84.047	N/A	N/A	332,856	-
				<hr/>	<hr/>
Total TRIO Cluster				865,086	-

See accompanying notes to the schedule of expenditures of federal awards.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Federal Expenditures	Passed Through to Subrecipients
NON-CLUSTER					
U.S. Small Business Administration					
Direct Awards:					
Small Business Development Center	59.037	N/A	N/A	377,643	-
Subtotal - Direct Awards				<u>377,643</u>	<u>-</u>
U.S. Department of Education:					
Direct Awards:					
English as a Second Language	84.195	N/A	N/A	245,146	-
Subtotal - Direct Awards				<u>245,146</u>	<u>-</u>
U.S. Department of Justice:					
Direct Awards:					
Violence Against Women	16.525	N/A	N/A	91,791	-
Subtotal - Direct Awards				<u>91,791</u>	<u>-</u>
National Science Foundation:					
Direct Awards:					
Agricultural Research	47.076	N/A	N/A	3,332	-
Learning of Physics and Programing	47.076	N/A	N/A	7,386	-
Subtotal - Direct Awards				<u>10,718</u>	<u>-</u>
Total Non-Cluster				<u>725,298</u>	<u>-</u>
Total Federal Funds				<u>\$ 65,219,855</u>	<u>\$ -</u>

See accompanying notes to the schedule of expenditures of federal awards.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Salem State University (the “University”) under programs of the Federal Government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

Note 3 - **Indirect Cost Rate**

The University has elected to not use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

Note 4 - **Federal Student Loan Programs**

Perkins Loan Program

The Federal Perkins Loan Program (“Perkins”) is administered directly by the University and balances and transactions relating to this program are included in the University’s basic financial statements. During the year ended June 30, 2017, \$381,470 of loans were advanced under the Perkins program and no administrative costs were incurred. As of June 30, 2017, loan balances receivable, under Perkins was \$1,433,891.

There was no federal capital contribution or match by the University during the current year.

Nursing Student Loans

The Nursing Student Loan Program is administered by Salem State University. Fiscal year 2017 activity included loan funds disbursed of \$63,750. As of June 30, 2017 the loan balances receivable for this program was \$573,197.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

Note 4 - **Federal Student Loan Programs - Continued**

Direct Student Loan Program

The University disbursed \$48,492,277 of loans under the Federal Direct Student Loans program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the University under the program as of June 30, 2017. The University is only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the University's financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I – Summary of Auditors’ Results:

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Noncompliance material to the financial statements noted? yes no

Federal Awards

Type of auditors’ report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Teachers Education Assistance for College Grant	84.379
Nursing Student Loans	93.364

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? x yes no

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Section II – Financial Statement Findings:

None

Draft

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs:

Finding number: 2017-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #: Multiple
Award year: 2017

Criteria

According to 34 CFR Section 685.309(b)(2):

A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct Plus Loan has been made to or on behalf of a student who:

- i. Enrolled at that school but has ceased to be enrolled on at least a half-time basis;
- ii. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or
- iii. Has changed his or her permanent address.

The Dear Colleague Letter GEN-12-6 (the “Letter”) issued by the U.S. Department of Education (“ED”) on March 30, 2012 states that in addition to student loan borrowers, Enrollment Reporting files will include two additional groups of students: Pell Grant and Perkins Loan recipients.

According to 2 CFR Part 200, Appendix XI Compliance Supplement:

Under the Pell Grant and loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file placed in their Student Aid Internet Gateway mailboxes sent by ED via the National Student Loan Data System (“NSLDS”). The institution determines how often it receives the Enrollment Reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Condition

The Federal Government requires the University to report student enrollment changes to NSLDS within 60 days. Our testing of forty students with enrollment status changes had the following:

Three students' status changes were not reported to NSLDS within the 60-day required time frame. Reporting of this status change occurred between 61 and 107 days after the required deadline.

Cause

The Registrar's Office did not communicate the necessary information and delegate responsibilities effectively to ensure compliance with enrollment reporting requirements.

Effect

The University did not properly report student status changes to NSLDS within the required time frame. Improper enrollment reporting results in the students' loan deferment period to be incorrectly calculated. Additionally, the student would be responsible for any interest rate changes.

Questioned Costs

Not applicable

Perspective

Our sample was not, and was not intended to be statistically valid. Of forty students selected for testing, three students or 7.5% of our sample was determined to not have their enrollment status updated to the NSLDS within the established timeframe.

Identification as a Repeat Finding, if applicable

Not applicable

Recommendation

We recommend that the University review the procedures and controls related to updating student enrollment status with the NSLDS.

Views of Responsible Officials

The University agrees with this finding.

Upon review of the National Student Clearinghouse reporting schedule to NSLDS, the institution is updating its submission schedule to incorporate more frequent submissions.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Finding number: 2017-002
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: Multiple
Award year: 2017

Criteria

According to 34 C.F.R. Section 668.22(j)(1):

An institution must return the amount of Title IV funds from which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew.

Condition

Federal regulations state that any unearned Title IV grant or loan assistance received by a student must be refunded to the Title IV programs upon a student's withdrawal from the institution. The academic institution is responsible for the calculation of the earned and unearned portion of Title IV assistance using a standard Return of Title IV Funds form ("R2T4"). In our testing sample of 12 students who were determined to have withdrawn from the University, we noted one student for whom funds were not returned within the required 45 days. Our audit disclosed that the funds were not returned until 227 days after the 45 day disbursement timeframe, respectively. The total amount to return was \$1,692.

Cause

The College has policies and procedures in place to perform this calculation for all students who withdraw. However, in this instance the students' withdrawal form and supporting documents were incorrectly marked as completed when the documents had not been processed. Upon the University realizing the student withdrew prior to the 60% mark in the semester the R2T4 form was completed and the appropriate aid was returned.

Effect

The University did not complete the R2T4 Form or return the unearned portion of aid within the established time frame.

Questioned Costs

Not Applicable

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Perspective

Our sample was not, and was not intended to be statistically valid. Of twelve students selected for testing, one student or 8.3% of our sample was determined to not have the RT24 form completed and the resulting federal aid returned with the established time frame.

Identification as a Repeat Finding, if applicable

Not applicable

Recommendation

The University should review and update their policies related to student withdrawals to ensure R2T4 forms are completed and the appropriate federal aid is returned within the established time limits.

Views of Responsible Officials

The University agrees with this finding.

Human error was the cause of this particular compliance issue.

Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Finding number: 2016-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #: 84.033
Award year: 2016

Condition

In administering its Federal Work-Study Program ("FWS"), an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34CFR 675.19 (a)).

The institution must also establish and maintain program and fiscal records that: (i) Include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Further, in general, students are not permitted to work in FWS positions during scheduled class times.

In a sample of two students, it was noted seven instances for one student in which the student worked during scheduled class time, five instances in which no department time log was able to be produced for the student, and two instances in which the student's department time log was not specific as to the time of day that was worked and therefore it could not be determined if the student worked during a scheduled class.

Current Year Status:

Corrective action was taken during the year.

Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2016

Finding number: 2016-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #: 84.033
Award year: 2016

Condition

An institution must submit Federal Pell Grant disbursement records to the U.S. Department of Education Common Origination & Disbursement System ("COD"), as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant. In accordance with 34 CFR 668.164, Federal Pell Grants are considered disbursed on the date the institution: (i) credits those funds to a student's account in the institution's general ledger or any subledger of the general ledger, or (ii) pays those funds to a student directly. (Federal Register Volume 78, Number 40).

Audit procedures performed included comparing student account records and COD records and ensuring that disbursement records were submitted to the COD within 15 days of the disbursement. Audit testing revealed that for one student, out of a total of 13 tested, disbursement records were not submitted to the COD within the 15-day requirement.

Current Year Status:

Corrective action was taken during the year.

Management's Corrective Action Plan

Finding number: 2017-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #: Multiple
Award year: 2017

Corrective Action Plan:

The Registrar's Office has incorporated additional quality control procedures to monitor that leave and withdrawal documents taken in through the Navigation Center, are examined to ensure that processing has been completed to avoid future errors. These additional quality control procedures were put in place as soon as the original problem was identified during the Spring 2017 semester.

Timeline for Implementation of Corrective Action Plan:

The University plans to implement the corrective action plan during the 2018 fiscal year.

Contact Person

Megan M. Miller
Registrar

Management's Corrective Action Plan - Continued

Finding number: 2017-002
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: Multiple
Award year: 2017

Corrective Action Plan:

The Financial Aid department of the University uses an error report to review the status of various populations subject to RT24 activity. Error reports are typically run with a specific, recent date range. In the future, a wider (older) date range will be used when running the report so as to detect and resolve an unusual situation like the one in the audit exception.

Timeline for Implementation of Corrective Action Plan:

The University plans to implement the corrective action plan during the 2018 fiscal year.

Contact Person

Judy Cramer
Director of Financial Aid

REQUEST FOR TRUSTEE ACTION

Date: October 11, 2017
To: Board of Trustees
From: Karen P. House, vice president for finance and facilities
Subject: FY17 audit report of state financial aid programs
Requested Action: Discussion/Delegation of Authority

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the following motion pertaining to the FY17 audit report of state financial aid program.

MOTION

The Board of Trustees of Salem State University hereby delegates authority to accept the Report Pursuant to the Massachusetts Office of Student Financial Assistance Audit Guide, June 30, 2017 to Vice President Karen House, with the proviso that findings, if any, be discussed first with the chair of the Risk Management and Audit committee.

Committee Assigned: Risk Management and Audit
Committee Action: Approved
Date of Action: October 11, 2017

Trustee Action:
Trustee Approval Date:
Effective Date:

Signed: _____
Title: Secretary of the Board of Trustees
Date: _____



Salem State University

October 2017

Introduction

Calculations were performed by PFM through FY2016. Salem State University prepared the calculations for FY2017 based on draft audited figures.

Calculations do not include the Foundation or Assistance Corporation units of Salem State University.

Calculations are based on Moody's scorecard methodology.

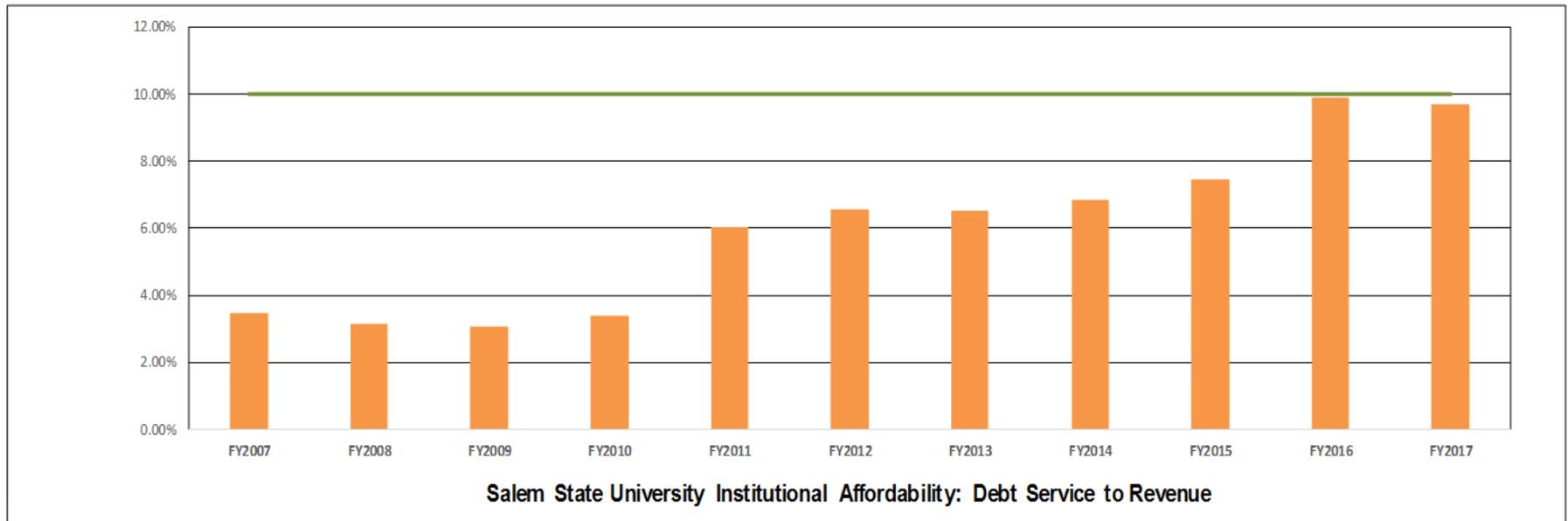
Calculations include all debt, for both on and off book with MSCBA.

Calculations that require operating revenues include appropriations which is in accordance with Moody's. Whereas, the University's operating revenues as disclosed in our financial statements exclude appropriations from operating revenues in accordance with Governmental Accounting Standards.

Debt Service Burden (Debt Service to Revenue)

Measures the University's ability to repay its debt obligations from operating revenue. Calculated as Total Annual Debt Service divided by Total Operating Revenue. As a general guideline, this ratio should be no higher than 10%.

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Annual Debt Service: Total	\$ 3,918,756	\$ 3,796,838	\$ 3,605,064	\$ 4,071,491	\$ 8,348,552	\$ 8,821,182	\$ 8,975,468	\$ 9,900,620	\$ 11,408,212	\$ 15,936,951	\$ 16,393,677
Total Operating Revenue	\$ 112,321,869	\$ 121,180,082	\$ 118,083,680	\$ 119,452,676	\$ 138,594,588	\$ 134,442,702	\$ 137,672,616	\$ 144,253,046	\$ 152,503,412	\$ 160,621,207	\$ 169,062,145
Debt Service to Revenue (Total Debt)	3.49%	3.13%	3.05%	3.41%	6.02%	6.56%	6.52%	6.86%	7.48%	9.92%	9.70%

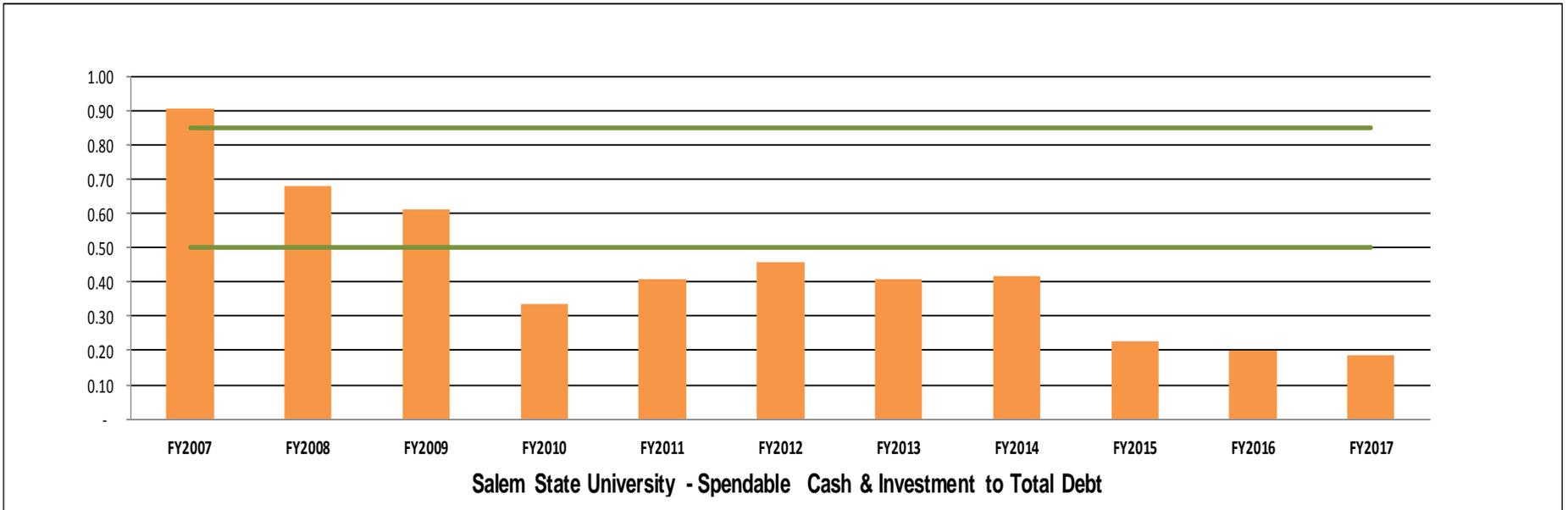


Note: Prior calculations of this measurement have been restated due to the prepayment of principal. These principal payments made in advance were in order to avoid a balloon payment that was due in the near future.

Spendable Cash & Investments to Total Debt

Measures the University's ability to repay its debt obligations from wealth that can be accessed over time or for a specific purpose. Calculated as cash and investments plus funds held in trust by others plus pledges receivable reported in permanently restricted net assets less funds permanently restricted by third parties (permanently restricted net assets) divided by total debt (principal) outstanding. This ratio should range between 0.85x and 0.50x.

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Spendable Cash & Investments	\$ 65,271,718	\$ 48,561,298	\$ 43,290,532	\$ 47,081,014	\$ 58,757,295	\$ 71,293,218	\$ 62,171,400	\$ 70,851,338	\$ 57,020,184	\$ 48,831,409	\$ 44,860,975
Total Debt Outstanding (Total Debt)	\$ 71,978,956	\$ 71,264,211	\$ 70,545,642	\$ 139,356,460	\$ 143,047,432	\$ 155,223,840	\$ 152,919,027	\$ 169,962,661	\$ 249,516,910	\$ 244,251,951	\$ 238,474,837
Spendable Cash & Investments to Total Debt (Total Debt)	0.91	0.68	0.61	0.34	0.41	0.46	0.41	0.42	0.23	0.20	0.19

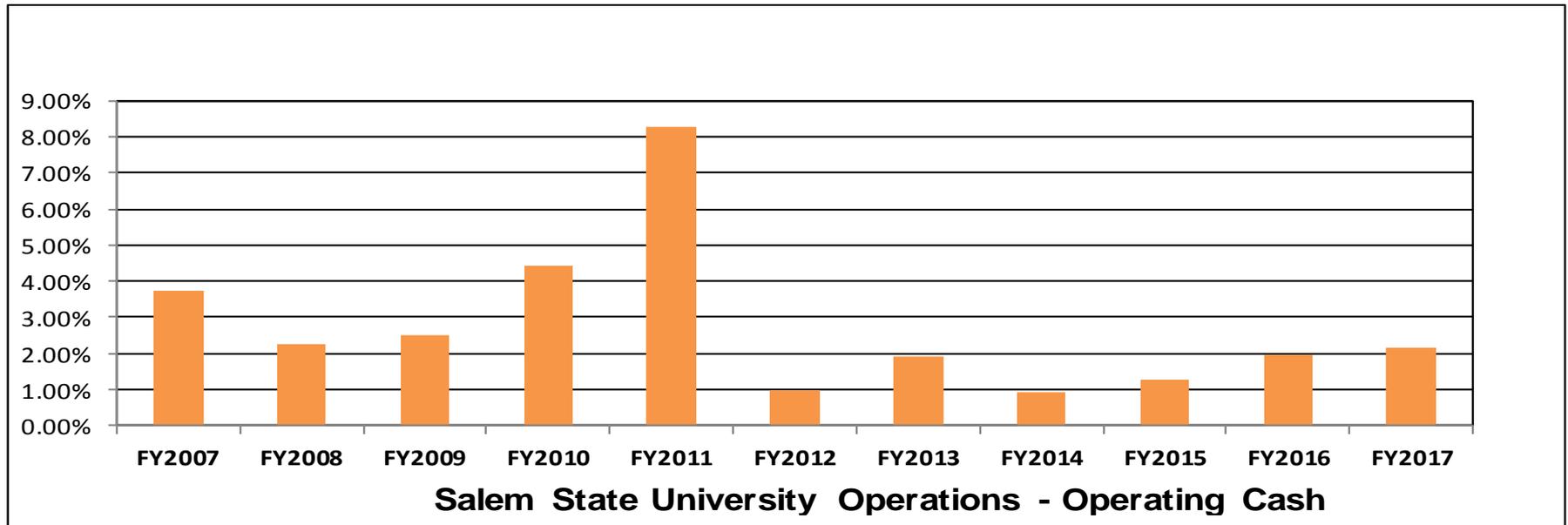


Note: Prior calculations of this measurement have been restated to exclude loans payable.

Operating Cash Flow Margin

Measures net income (before non-cash expenses) relative to operating revenue to indicate the amount of cash the University generates to support its strategic and capital investments. Calculated as operating revenue less operating expenses plus depreciation, and additional, unusually large non-cash expenses (GASB 68 Pension Expense), divided by operating revenue. This ratio should show an improving, positive trend over the course of multi-year period.

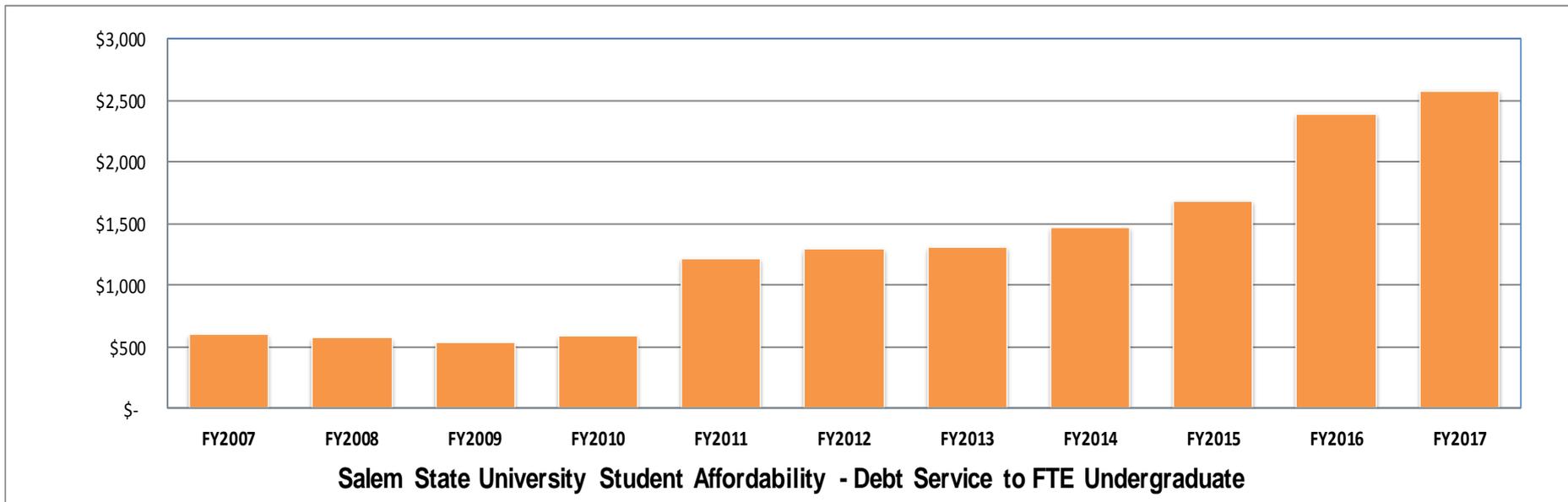
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Operating Cash Flow	\$ 4,212,669	\$ 2,746,754	\$ 2,952,792	\$ 5,317,622	\$ 11,448,244	\$ 1,312,231	\$ 2,614,998	\$ 1,359,426	\$ 1,447,987	\$ 7,530,927	\$ 8,640,314
Operating Revenue	\$ 112,321,869	\$ 121,180,082	\$ 118,083,680	\$ 119,452,676	\$ 138,594,588	\$ 134,442,702	\$ 137,672,616	\$ 144,253,046	\$ 152,503,412	\$ 160,621,207	\$ 169,061,665
Operating Cash Flow Margin without GASB 68	3.75%	2.27%	2.50%	4.45%	8.26%	0.98%	1.90%	0.94%	0.95%	4.69%	5.11%



Debt Service to Full Time Equivalent (FTE) Undergraduate Enrollment

Measures the effective amount of the University's debt obligations that each undergraduate student is effectively covering in any given year. Calculated as Annual Debt Service divided by Undergraduate FTE.

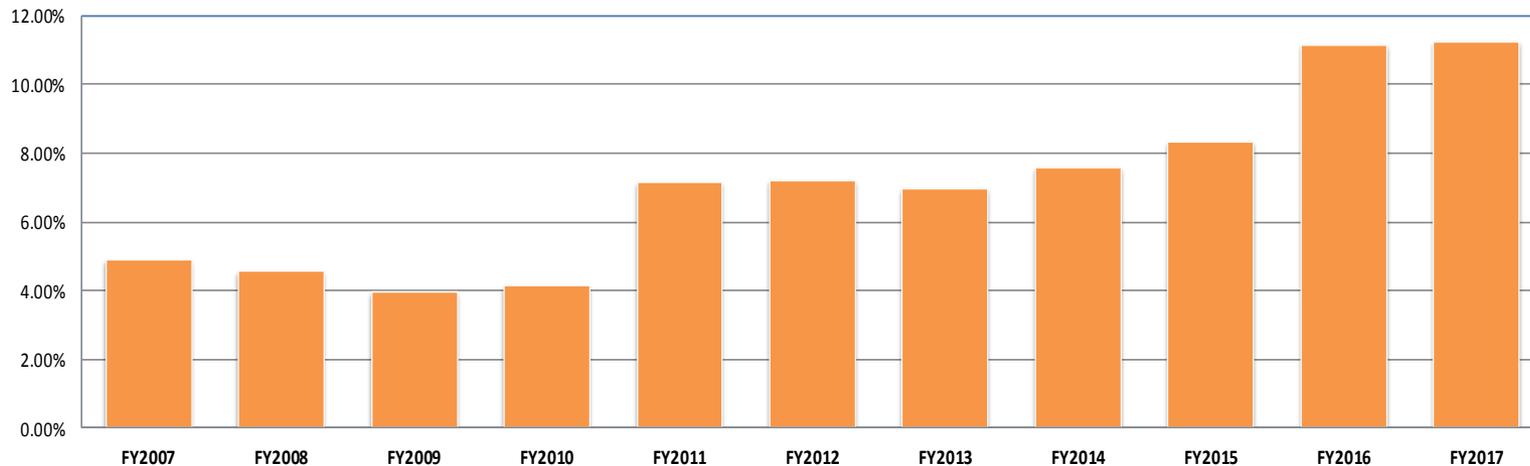
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Annual Debt Service (Total Debt)	\$ 3,918,756	\$ 3,796,838	\$ 3,605,064	\$ 4,071,491	\$ 8,348,552	\$ 8,821,182	\$ 8,975,468	\$ 9,900,620	\$ 11,408,212	\$ 15,936,951	\$ 16,393,677
Full Time Equivalent (FTE) Undergraduate Students	6,540	6,581	6,797	6,887	6,865	6,773	6,870	6,753	6,757	6,674	6,358
Debt Service per FTE Undergraduate	\$ 599	\$ 577	\$ 530	\$ 591	\$ 1,216	\$ 1,302	\$ 1,306	\$ 1,466	\$ 1,688	\$ 2,388	\$ 2,578



Annual Debt Service per FTE as related to Undergraduate Tuition & Fees

Measures the proportion of the annual debt service as a percentage of Undergraduate student rates.

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Annual Debt Service per FTE Undergrad (Total Debt)	\$ 599	\$ 577	\$ 530	\$ 591	\$ 1,216	\$ 1,302	\$ 1,306	\$ 1,466	\$ 1,688	\$ 2,388	\$ 2,578
Tuition and Mandatory Fees + Average Housing + Meal Rates	\$ 12,193	\$ 12,571	\$ 13,328	\$ 14,220	\$ 17,014	\$ 18,116	\$ 18,804	\$ 19,294	\$ 20,252	\$ 21,391	\$ 22,936
Annual Debt Service per FTE Undergraduate	4.91%	4.59%	3.98%	4.16%	7.15%	7.19%	6.95%	7.60%	8.34%	11.16%	11.24%

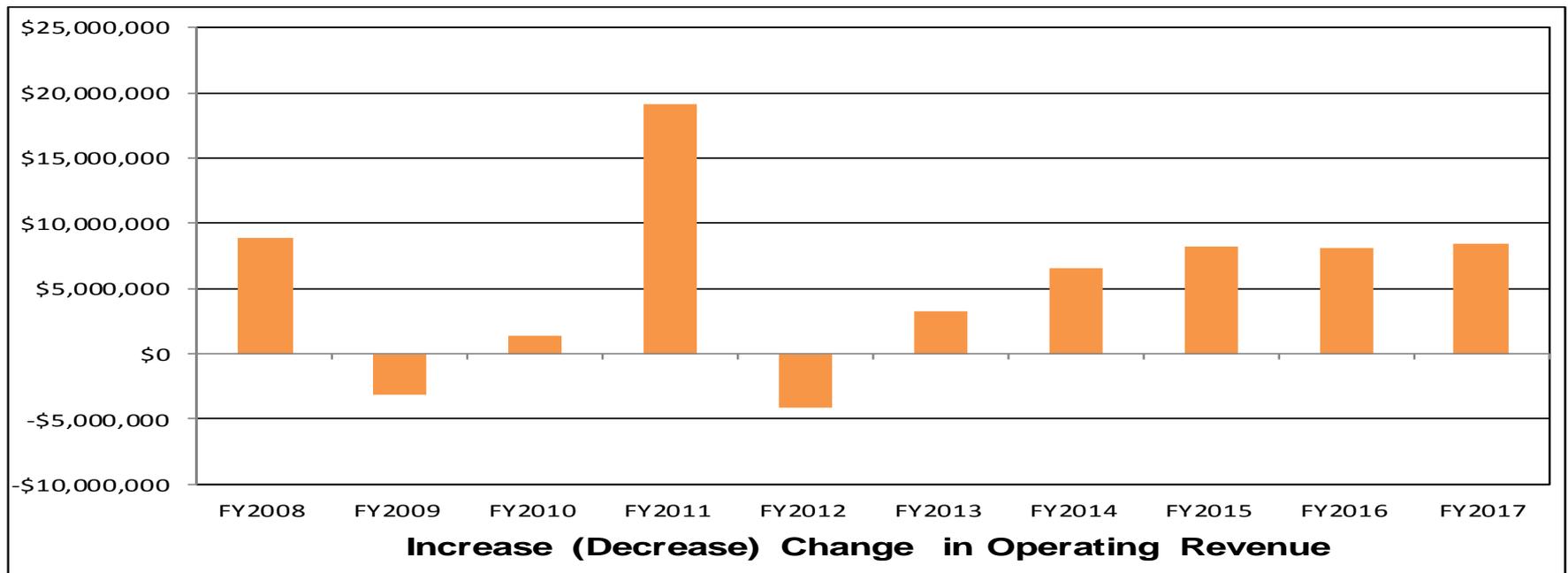


Salem State University Student Affordability - Annual Debt Service per FTE Undergraduate Tuition, fees, room & board

Change in Operating Revenue

The increase or decrease in operating revenues from the prior year is depicted below.

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Change in Operating Revenue from Prior Year	\$8,858,213	\$(3,096,402)	\$1,368,996	\$19,141,912	\$(4,151,886)	\$3,229,914	\$6,580,430	\$8,250,366	\$8,117,795	\$8,440,938



Summer Dormitory Rental Revenue

The following information summarizes the summer dormitory rental revenue by year.

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Summer Dormitory Rental	\$284,398	\$321,793	\$321,793	\$323,515	\$313,385	\$253,911	\$132,698	\$287,951	\$229,160	\$173,607	\$269,019

